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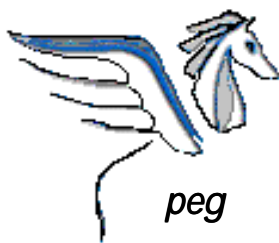
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*Technical Report*

# **Business Development Services for Small and Medium Enterprises and Cooperatives in Indonesia: Some Key Guidelines and Needs**

**By Eduardo Canela**



**Prepared for:**

Small & Medium Enterprises and Cooperatives  
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Republic of Indonesia

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## Foreword



This report describes the implementation and results of a short term expert mission (or Mission) performed by Eduardo Canela (also called the Consultant) from March 17 to April 16, 2001, in the Badan Pengembangan Sumber Daya Koperasi, Pengusaha Kecil dan Menengah (translated as the Agency for the Development of Resources for Cooperatives, Small and Medium Enterprises, referred to as “the Badan” in this report) via the Checchi and Company Consulting, Inc., a partner in the Partnership for Economic Growth (PEG) which is implementing a major bilateral technical assistance project between the Government of Indonesia (GOI) and the Government of the United States of America through the U.S. Agency for International Development (USAID) in Indonesia for the promotion and development of small and medium enterprises.<sup>1</sup>

In doing the mission, the Consultant worked closely with many of the PEG team members and relevant USAID officials in Indonesia. The initial technical guidance was ably provided by Dr. Thomas Timberg, the PEG’s small scale credit adviser. On the USAID side, the Consultant coordinated with Dr. Paul Deuster and Ms. Soepardjo Kusumastuti. Administrative support was provided by the PEG central office, most specially Ms. Norma Simanjuntak and Mr. Irfan Abdullah. In the Badan, the Consultant worked closely with the Vice Chairman, Dr. Noer Soetrisno, PhD and his management team (especially, Bapak Fadjar Sofyan and Bapak Wayang Suarja). The Badan provided the Mission with office space and telephone, technical guidance and institutional coordination support. The Mission would never have been completed satisfactorily without their help. The Consultant wishes to thank the Badan and the PEG team for this opportunity to work with an enthusiastic group of people.

This report consists of five main parts. The first part describes the Mission. The second part sketches the background and institutional parameters of the Badan. Then the third examines the market for BDS that the Badan is aiming at. The fourth part describes the embedding of BDS principles in the Badan and the implications that they will have for the Badan. Finally, the final part recommends a way forward and other follow-up measures that the Project may consider.

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<sup>1</sup> The views expressed in this report are those of the author and not necessarily those of USAID, the U.S. Government or the Government of Indonesia.

# EXECUTIVE SUMMARY

## 1. The Mission

The Mission is part of the Partnership for Economic Growth (PEG) package of bilateral technical assistance project between the Government of Indonesia (GOI) and the Government of the United States of America through the U.S. Agency for International Development (USAID) for the promotion and development of small and medium enterprises and cooperatives (SMECs). The Mission primarily aimed at assisting the Badan Pengembangan Sumber Daya Koperasi, Pengusaha Kecil dan Menengah (or simply, the Badan) in its efforts to facilitate the supply of business development services (or BDS) to SMECs. The Mission was conducted by Eduardo Canela (via the Checchi and Company Consulting, Inc.) from March 17 to April 16, 2001.

## 2. The Badan and its Programs

The GOI issued a Presidential Decree<sup>2</sup> that describes the Organization Structure and Duties of the Non-Departmental Government Institutions called the Badan. The Badan was mandated to facilitate, enhance and stimulate the flow of development resources to SMECs, particularly in areas involving BDS, human resource development (HRD) and people's participation as well as the capital formation and investment considering the actual SMEC conditions, the rationalization of GOI bureaucracy and the implementation of regional autonomy. To achieve this, the Badan has the following programs:

### Financial

- Develop capital resources and easy access to capital for SMEC.
- Enhance the capacity of SMEC to utilize and make a productive use of the access to capital.
- Encourage integration, modernization and expansion of non-conventional credit institutions in the support of SMEC.
- Empower Loans and Savings Cooperatives and Micro Finance Institutions to make them grow into financial institutions capable of serving the financial needs of members.

### Non-Financial

- Develop and strengthen BDS for SMEC.
- Develop groups of potential products.
- Develop business by improving market share, business promotion and partnership.

### HRD and People's Participation

- Advocacy within the framework of the creation of a conducive business climate.
- Develop entrepreneurship and SMEC's human resources.
- Prepare data, information and model for the development of SMEC through operational and strategic research.

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<sup>2</sup> See Keputusan Presiden Republik Indonesia Nomor 51, Thn 2000 tentang Pengembangan Sumber Daya Koperasi, Pengusaha Kecil Menengah, Jakarta, Indonesia.

Increase people's participation in the development of SMECs.

### **3. The BDS Market**

The BDS market consists of three main segments: developed, developing and undeveloped. The developed BDS market (sometimes called commercial BDS is still relatively small. In this market, there are already a number of SMECs who are aware of the need for some BDS services and are already willing to pay for those services. The developing BDS market (or D-BDS) has been battered by incentives and subsidies in the past. It is confused in terms of what price to pay for what services. In this market, information is a premium but remains in very short supply. The market has two main components: the first has a weak demand but strong supply and the second has a strong demand for but with weak supply of BDS. In this market, the Badan can play a major role in stimulating demand rather than becoming a major player. It can support a few seed BDS to demonstrate its ability to create markets and opportunities as well as show the SMECs that "fees for services" work. It can also provide the needed authority figure to empower local government to provide "an enterprise-friendly" environment. The third segment is the undeveloped or social (or S-BDS) BDS market. In this market, both demand and supply are weak requiring social interventions. In this market, the Badan's main client will be the local government officials and not their BDS partners..

The Mission recommends that the Badan BDS situate themselves in the D-BDS. In this market the Badan will be able to provide the participating BDS with a level playing field where they can stimulate and sustain a market for BDS services. This does not mean that the Badan will not support supply-focused interventions as opportunities may exist in areas where the demand is strong but the supply is weak. In this market, the Badan will be able to leverage its limited seed money to attract more investments in BDS from the private sector. To minimize the risks, the Badan will focus on SMEC clusters.

### **4. The Badan and the BDS**

The Badan will not build any single BDS. Instead, it will use a network of 60 BDS units that it can use as seeds where learning on market building can occur. The Badan is now ready to undertake the following processes:

1. Selecting the Cluster
2. Announcement and Promotion
3. Pre-selection Process (via Badan and the selection committee)
4. Market Assessment by the Prospective BDS Partners
5. BDS Training and Business Plan Preparation
6. Establishment of network of associated BDS
7. Initial marketing and promotion
8. Start of commercial operations

It would be safe to assume that the Badan most likely BDS candidates will be an existing education institution (e.g. extension units of academe, universities, polytechnics, and technical and vocational schools). These units needed several inputs on market (for BDS) and product development. The second most likely partners are in the private sector where the Badan will work with IT groups, private voluntary organizations, as well as professional groups.

To facilitate the initiation of the planned 60 BDS, the Badan has a budget equivalent to US\$ 50,000<sup>3</sup> per unit. The Badan will offer this funding in the form of a loan (repayable in three years) to the prospective BDS partners via Bank Bukopin with whom the Badan has already establish a special memo of understanding. The loan will be used for some rudimentary equipment and working capital. Moreover, the Badan will assist the BDS in its market development initiatives, for example brochures, websites, local adverts, radio announcements, posters, etc. The maximum limit for the working capital component will be six months. This will be enough time for the BDS partner to build an initial base of fee-paying clients. The loan will carry an interest burden at par or close to the prevailing commercial rates.

## **5. The Badan and the Local Government**

To implement the above measures, the Badan will work very closely with its local government counterparts. It has already mapped out working relationships as outlined in the chart on the following page.

## **6. What the Mission achieved**

Among others, the Mission has made three major contributions. Briefly these are:

1. Clarity. The Mission infused a more unified vision and strategic approach on the Badan's BDS roles and functions.
2. BDS Instrumentation. The Mission has shared with the Badan three of the most critical instruments: the application form for prospective BDS partners, criteria for selecting BDS partners and a sample contract for the BDS partners. Moreover, the Mission gave practical suggestions on: BDS advertisements and promotion, BDS guides, brochure, rights, responsibilities of partners, and fee charging systems.
3. Influencing the Environment. Being new, the Badan needed the Mission to elaborate its strategic approach with the other players in the BDS game in Indonesia.

## **7. Strategic Role of the Badan**

For its role, the Badan sees itself as:

1. The New BDS Market Builder. The Badan is fully committed to the challenge of stimulating and facilitating the development of a dynamic and fully functioning market for BDS services throughout the country.

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<sup>3</sup> Based on Forex rate of US\$ 1.00 = Rp 10,000.

## The Badan and Local Government Working Relationships

Activities ↓ Involvement →	Badan					Local Government				
	5	4	3	2	1	1	2	3	4	5
Survey design										
Cluster survey										
Needs Identification										
Cluster selection										
Tendering the BDS										
BDS Applications										
BDS selection										
BDS Appreciation										
BDS Specialist Training										
Operational Phase										
Product development										
New opportunities id										
Market surveys										
Cluster diagnosis										
Product deployment to BDS										
Information Services										
Info-product development										
National BDS market development										
Local market development										
Regulating fees										
Monitoring systems design										
Field impact monitoring										
MIS-national										
MIS-local										
Capacity building design										
Training for capacity building										

2. Product Developer. The Badan can play a very strategic role in the identification and eventual transfer of the new products and services to the network of BDS, the initial seeds to build the BDS industry. To do this, it will develop and deliver new training and consulting services to the BDS network, for example it can use Learning Events rather than Training. Learning events are much broader and no-lecture types of courses that are very engaging and highly interactive. In the area of consulting, it will move away from the one consultant to one client relations. It will use information technology to deliver consulting as a product rather than a service.

## 8. Follow-Up Mission

To achieve the above stated roles, the Badan deserves USAID's partnership and support. It has a clean slate, a fresh mandate and will enter a risky but worthy BDS market, opening new possibilities for sustainable delivery to the needed services to SMECs. Such support will have significant impacts on current USAID activities in Indonesia: private sector involvement,



decentralization of the government and empowerment of the local institutions, capacity building and human resources development, in educational institutions and the private sector as well as the promotion and development of SMECs. On top of the ongoing advisory services on small scale credit, the Badan needs additional technical assistance in:

1. Implementing BDS Technicians Training. The Badan needed a functional curriculum, a trainer assisted by a local team that can implement a series of BDS Technicians Course for at least 180 participants (Badan's staff, prospective partners, managers and other interested parties). These courses will cover the following topics: how to manage a BDS partnership, cluster diagnosis, cluster rating system, rapid BDS market appraisal, doing BDS-related training (e.g., for BDS Technicians, BDS Specialists and Staff, etc.), designing and deploying enterprise-friendly BDS product development processes, BDS fee charging systems and procedures, fee-based consulting services, BDS market development strategies, marketing BDS services in weak-demand areas, developing best practices database, promoting BDS services, computers and IT in SMECs, etc.
2. Guidelines in Product Development. The Badan needs more technical guidance in developing new products for transfer to its BDS partners. The results of one or two cycles of product development can be a major input for the above courses to have immediate field applications. These two cycles will allow the Badan staff the experience of initiating new products in the BDS market.
3. Training of Local Government on BDS. To insure smooth field implementation of its BDS principles, the Badan would like to implement a series of courses for its local government partners in the areas of assisting BDS and the SMECs. Topics like the regional autonomy, regulating versus facilitating, maintaining "enterprise-friendly" environments, working together with the BDS, etc. will be covered.
4. Comparative Studies and Training. Some Badan staff needs to be trained in market building strategies outside the country. The Mission suggests at least two one week familiarization visits in the countries within the region where some BDS are being implemented. Each visit should at least have three to five persons.
6. Information and Media Systems Development. The Badan has a relative large space that it plans to use as an information and media systems development. The Badan has yet to acquire hardware for this. The planned assistance on product development will provide some technical guidance on how these media systems will be developed. This center will develop media materials and informercials that will assist BDS efforts in Tele-Education, Tele-Retail, Tele-Incomes, etc.

## PART 1: THE MISSION

### 1.1. The Purpose

The Mission primarily aimed at undertaking an analysis and making tentative recommendations for: (a) the facilitation of the supply of business development services (BDS, translated as Pelayanan Pengembangan Bisnis) by the Badan and (a) the division of responsibilities between the Badan and the relevant Provincial and District government agencies in all areas relating to the promotion and development of small and medium enterprises and cooperatives (SMECs). This assignment was originally planned for a two-month mission.

Clearly, the original purpose could not be achieved within the one-month (March 17 to April 16, 2001) implementation period actually provided to the Mission. While the Mission was originally planned for two months, this Consultant was only available for a month when the permission to proceed was officially given. This concern was immediately discussed with the Badan and the USAID in a meeting held last March 23, 2001 between Dr. Soetrisno, Dr. Timberg, Ms. Kusumastuti (of USAID, Jakarta) and this Consultant. Everyone agreed that the Mission should instead concentrate on the Badan's preparations for implementing its BDS-related mandate and if time allowed, provide guidance on the appropriate relationships between the Badan and the relevant local government agencies in fulfilling the resulting BDS mandate. The Badan offered the Mission a one-day field visit to Solo in Central Java to examine some clusters and existing BDS models in the ground.

The Mission focused only on the Badan's BDS activities. This is a rather limited view as the Badan has two other main activities (e.g., HRD and advocacy as well as promotion of capital investments) that will simultaneously be implemented with the BDS mandate. This limitation, however, is not a major concern as there is an ongoing technical assistance provided by the PEG via the small scale credit adviser in areas involving microfinance, savings and loans schemes, information systems, etc.

As a consequence of this short time duration, all the parties involved in the Mission---particularly the Badan<sup>4</sup> and its management team---provided supports that went beyond this Consultant's expectations. The Badan was a different GOI agency, different from this Consultant's former GOI clients. Definitely, the short Mission duration created energy and focus that would not have been possible had it been implemented over a longer time frame.

### 1.2. The Timing

The timing was very good. When the Mission began, the Badan was busily preparing to launch its BDS program. Like all other GOI agencies, it was waiting for its budget to be released by the Ministry of Finance, which will most likely be in May. Considering that the Badan is relatively new, there is no better timing than this. The Mission was able to ask key questions that probed the Badan's preparedness. More implementation issues surfaced. The Badan gained more clarity as to BDS principles and their implications for the Badan's strategic role in this highly changed (and still changing!) political and economic milieus. The Mission also provided the Badan with a "roadmap"

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<sup>4</sup> On the first day of the Mission, the Badan requested this consultant to introduce the BDS concepts to some of Badan's BDS staff. The presentation lasted for three hours, which is indicative of Badan's commitment and interest in the BDS.

that allowed it to focus on the relevant issues and immediately resolve the easier ones. This process culminated in an internal management workshop which focused on the BDS activities (plus how the BDS will relate with the Badan's other programs) which was held last March 30-31, 2001<sup>5</sup>.

Despite this efficiency however, the timing was limited. It was even made shorter by two holidays. Then, the Mission coincided with Dr. Timberg's annual home leave and he had to be out on the last two weeks---the Mission's most important part. Despite best efforts, it was difficult to arrange meetings on the Mission's last week (a Holy Week). Consequently, the main findings and results had to be presented in closed discussions with Dr. Soetrisno. A brief meeting with Stuart Callison of PEG as well as Ibu Kusumastuti and Dr. Paul Deuster of USAID was held last April 12, 2001.

Finally, the timing was seriously affected by the very difficult conditions that Indonesia was facing at the time that the Mission was held. There were many uncertainties among everyone concerned. There were so many changes occurring, most notably the mass scale transfer of governance functions to the provincial and local levels, the political uncertainties, and even weakening global markets. The overall mood of the economy was less than optimistic.

### 1.3. The Approach and the Process



The Mission reviewed and examined the macro and meso environments considering the Badan's intention to use BDS for developing SMECs. In doing this, the Consultant applied two well known techniques: (a) desk research and (b) series of interviews and meetings. The Mission was given much technical materials and literature to review. The partial list of material consulted is in Annex 1. This was complemented by a review of the latest materials on Indonesia (its economy and recent developments in politics and economics), SMECs and the BDS from the Internet.

Then, this Consultant held various meetings with relevant individuals and institutions who were directly or indirectly involved in promoting SMECs and BDS activities. Moreover, he used his informal networks and personal friends both virtually and face to face. Meetings and interviews were held with key players like the Asian

Development Bank (ADB) SME TA Team, the Asia Foundation, the PEG Team (the Consultant attended the monthly meeting of all the team members), as well as key officers of the private sector and relevant GOI bodies. Finally, this Consultant also attended the AID-PEG and Ministry of Industry and Trade (MoIT) sponsored One-Day Conference on Domestic Trade, Decentralization and Globalization held last April 3, 2001. It should however be noted the Mission cannot consider

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<sup>5</sup> More than 40 participants joined the workshop including the Vice Chairman who stayed on with the participants clarifying and supporting concepts and ideas that flowed-in during the workshop.

all the implications of the macro and meso environments to the proposed activities of the Badan. It was difficult to confirm and validate some of the information gathered.

While reviewing the macro and meso environments, the Mission probed into the micro environment. It held many intense discussions with the Badan staff---individually, in small groups, and in large groups (e.g., via the internal management workshop and a BDS specialist training meeting held last March 30-31, 2001). This Consultant took all possible opportunities to present, sell and clarify the principles and practice of BDS in other countries similar to Indonesia. The Consultant applied the BDS principles outlined in the latest edition of the Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention<sup>6</sup> which guides the design of many BDS installations worldwide. A copy of this material was shared with the Badan and was distributed during the internal management workshop. These discussions were complemented by the one-day trip to Solo in Central Java which provided a feel of the ground and a sampling of the prevailing thinking from below.

The approach was implemented in a very flexible way. The Badan's Vice Chairman has a unique management style. He has an open-door policy and can discuss issues even in the corridor. He is passionate about the issues confronting SMECs and how to promote and develop them. In Solo for example, he discussed with the university and local government officials the options for the Badan and the important SMEC issues till 12:00 pm in a sidewalk Warung. These discussions yielded valuable insights on the Badan's role and functions. The Consultant was immediately accepted by the Badan and was given access to everyone's office even without prior appointment. Likewise, he allowed everyone to do the same and discuss any issue relating to BDS.

#### **1.4. The Context**

The report would not be complete without a word or two on the Mission context. The Mission was held against a background of political turmoil in Indonesia. Its environment---political, economic, social, technology---is changing rapidly and in constant dynamic flux. Periodic demonstrations rocked the once peaceful streets of Jakarta. The headlines were discouraging.

The causes are numerous. Some internal (e.g., changes in decentralization, deregulations, and trade liberalization). Others are external (e.g., floundering Yen, declining economic activities within the Region, oil price hikes, weakening rice prices, etc.). Both the political leadership and the business sector are scrambling for solutions that could eventually bring some sense of stability. The social costs are rising. The opportunity losses continue to mount. Some investors started figuring (while others actually did!) strategic exits. Some development donors either cut their losses or postponed their development commitments. Many believe that these difficulties will take time to resolve. The economic uncertainties prevailed as the Mission ended.

Not all is bad news, however. Some sectors are actually vibrant and active. The telecommunications sector is still busy laying out the communications infrastructure. Many internet-based enterprises remained optimistic and dynamic. While the uncertainties make it more and more difficult for

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<sup>6</sup> See Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention. 2001 Edition, Prepared by the Committee of Donor Agencies for Small Enterprise Development Secretariat, SME Dept., MSN F2K-207, World Bank Group, 1818 H Street NW, Washington, DC 20043 USA, February, 2001.

institutions to perform their daily routine tasks, the GOI bureaucracy is functioning. They are as one political analyst claims: “quietly building while sailing”. While admittedly nothing can move without funding from both the GOI and the donors, the GOI staff is looking for new ways to better their services and learn from the mistakes of the past. There is significant institutional soul searching, reflecting and learning happening all over. This Consultant has on several occasions heard some quotes from the previous policy studies of ADB, ILO, Asia Foundation, etc. by GOI officers. The advice therein started percolating in the current thinking. This is evident in the Badan’s current approach to SMEC promotion and development.

While they are admittedly quiet---they are usually like this, in good and in bad times---the SMECs are still humming in spite of all these shocks and difficulties. Somehow or the other, the SMECs continue to be resilient and are able to weather the storm. Many remain as vibrant and dynamic. The resiliency of the SMECs in Indonesia is well documented<sup>7</sup>. They are able to deal with such pressures as unfair competition from their larger counterparts and even imports, low levels of liquidity, eroding value of their assets, etc. But for how long? All these further the case for assisting the SMECs in the right way. But, how can this be done? What were the mistakes of the past that should be avoided in the future? What should GOI institutions like the Badan do? When does facilitation ends and direct intervention begins?

### **1.5. The Economic Values of the SMECs**

The economic values of SMECs are well documented and lots of materials have already been written on the topic<sup>8</sup>. Indonesia’s SMECs remain the economy’s main actor in terms of numbers, employment and value adding ability. Today, SMECs probably number around 40 million units; about three million of which are doing various forms of manufacturing-related activities. In all, they absorb 99.5% of the country’s total employment and account for almost 60% of GDP<sup>9</sup>. On top of this, the SMECs also provide the following advantages: facilitate the emergence of a local economy, promote equity in income distribution, stimulate market and technology innovations, are seedbeds of entrepreneurship, maintain linkages with large enterprises, and ability to deal with contemporary development problems like poverty alleviation, gender equity and employment generation.

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<sup>7</sup> See Asia Foundation, Indonesia’s SMEs: Weathering the Storm, Jakarta, Indonesia.

<sup>8</sup> See Soetrisno, Noer’s paper on SMECs and Science and Technology policy, 2001, Jakarta, Indonesia.

<sup>9</sup> See Nahid Hudaya, “Upaya Pemerintah Dalam Pengembangan Usaha Kecil Khususnya Koperasi”, 2001

## PART 2: THE BADAN

### 2.1. The Beginning

The Badan was born out of GOI's sincere commitment to decentralization---the large scale dispersion and eventual localization of GOI activities from the Center to the provincial and kabupaten/ kotamadya---an ongoing process that began on January 1, 2001. The task of promoting and stimulating SMECs did not escape this. Earlier, GOI converted the Department of Cooperatives (DEPKOP) to the Office of the State Minister of Cooperatives, Small and Medium Enterprises (MENNEGKOP), which did not have offices in the provinces and districts. Then, it formed the new Badan---the main client of this Mission---in 2000.

The Badan was merely four months old when this Mission commenced. And as earlier hinted, it was awaiting its budget's release. Its staff were busy doing "sosialisasi", a way of introducing the Badan to its potential constituencies in the provinces. Most of its officers including Dr. Soetrisno have been doing presentations and building relations with the relevant local government officials and SMECs. They are busy looking for potential BDS partners.

### 2.2. The Strategic Thrust

The GOI issued a Presidential Decree<sup>10</sup> which describes the Organization Structure and Duties of the Non-Departmental Government Institutions called the Badan. The Badan was mandated to facilitate, enhance and stimulate the flow of development resources to SMECs, particularly in areas involving BDS, human resource development (HRD) and people's participation as well as capital formation and investment considering the actual SMEC conditions, the rationalization of GOI bureaucracy and the implementation of regional autonomy.

The Badan aims at enhancing the role and people's participation in national economic recovery which is strategically linked with measures to achieve a just, civilized and prosperous society---one where prosperity goes hand-in-hand with justice. It knows that SMECs can significantly contribute in this area. Over the years, in good and in bad times, the SMECs acted as a safety valve in dealing with many issues including poverty alleviation, and income distribution with equity, among others. It also knows that there is an urgent need to improve the local SMECs promotion institutions by enhancing their ability to support regional autonomy.

This is reflected in its vision that states: "With its inherent strength and capability, the Badan will facilitate and develop a network of service providers that will improve the capabilities, efficiency and competitiveness of SMECs." This vision was later transformed into a six-fold mission statement: (a) enable the SMECs to have the management capacity to access and utilize regional economic resources and potentials; (b) improve business capacity by utilizing integrated business services in improving business productivity and/or potential products; (c) facilitate capital and investment requirements of SMEC by enhancing their ability to provide self-financed capital, access to capital resources from financial institutions or through investment partnership with other financial institutions; (d) improve the management capacity of loan and saving

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<sup>10</sup> See Keputusan Presiden Republik Indonesia Nomor 51, Thn 2000 tentang Pengembangan Sumber Daya Koperasi, Pengusaha Kecil Menengah, Jakarta, Indonesia.

cooperatives and micro credit institutions thereby making them grow into a reliable financial institution for the people; (e) increase people's participation and optimize the utilization of people's resources for the development of the SMECs; and (f) establish sectoral and cross discipline cooperation in training and research, especially in providing information, technology and professional human resources.

For its goal, the Badan aims at: (a) SMEC that will grow and be able to access and utilize resources (capital, investment, technology, human resources) within the framework of improving SMEC's contribution towards the increase of people's income, domestic product, SMEC investment, exports and employment opportunities; (b) the establishment of other supporting service institutions in marketing, information and technology, investment and human resources for the development SMEC; and (c) financial institutions to be accessed by the SMECs. By way of strategy, the Badan will focus on: (a) developing potential commodities, (b) networking to get access to market resources and the empowerment of SMECs, (c) synergy and empowerment of supporting institutions for SMECs, and (d) optimizing local resource-based potentials.

Based on the above, the Badan has formulated a three-pronged program of activities consisting of the following:

#### Financial

- Develop capital resources and easy access to capital for SMEC.
- Enhance the capacity of SMEC to utilize and make a productive use of the access to capital.
- Encourage integration, modernization and expansion of non-conventional credit institutions in the support of SMEC.
- Empower Loans and Savings Cooperatives and Micro Finance Institutions to make them grow into financial institutions capable of serving the financial needs of members.

#### Non-Financial

- Develop and strengthen BDS for SMEC.
- Develop groups of potential products.
- Develop business by improving market share, business promotion and partnership.

#### HRD and People's Participation

- Advocacy within the framework of creating a conducive business climate.
- Develop entrepreneurship and SMEC's human resources.
- Prepare data, information and model for the development of SMEC through operational and strategic research.
- Increase people's participation in the development of SMECs.

The Badan has worked out the conceptual relations between these programs. It even made detailed slide and overhead presentations in this regard. In addition, it has planned to create Warung networks in selected areas that will link them to microfinance, cooperative development, retail and merchandising development. The Badan will provide the guides in for financial and non-financial assistance. This is a good example of how the three programs will at a later stage "synergize" to create an integrated package of services to the SMECs. In Solo in Central Java,

this approach is slowly taking shape with a working model of a retail trading cooperative called Maharani<sup>11</sup>.

The Badan sees these programs as strategic in empowering the local government to unleash SMECs energies for economic development in the rural areas. It sees that by stimulating the BDS markets, local institutions will eventually bring the needed services to the SMECs. These markets will insure the eventual sustained provision of such services allowing the Badan and the GOI agencies to concentrate on more important development concerns. The Badan works on a very limited time frame. In fact, it has two years to prove its institutional worth and will soon be evaluated according to a set of performance criteria. Critical to its success will be a network of active and well functioning BDS partners.

### **2.3. The Organogram and Manpower Complement**

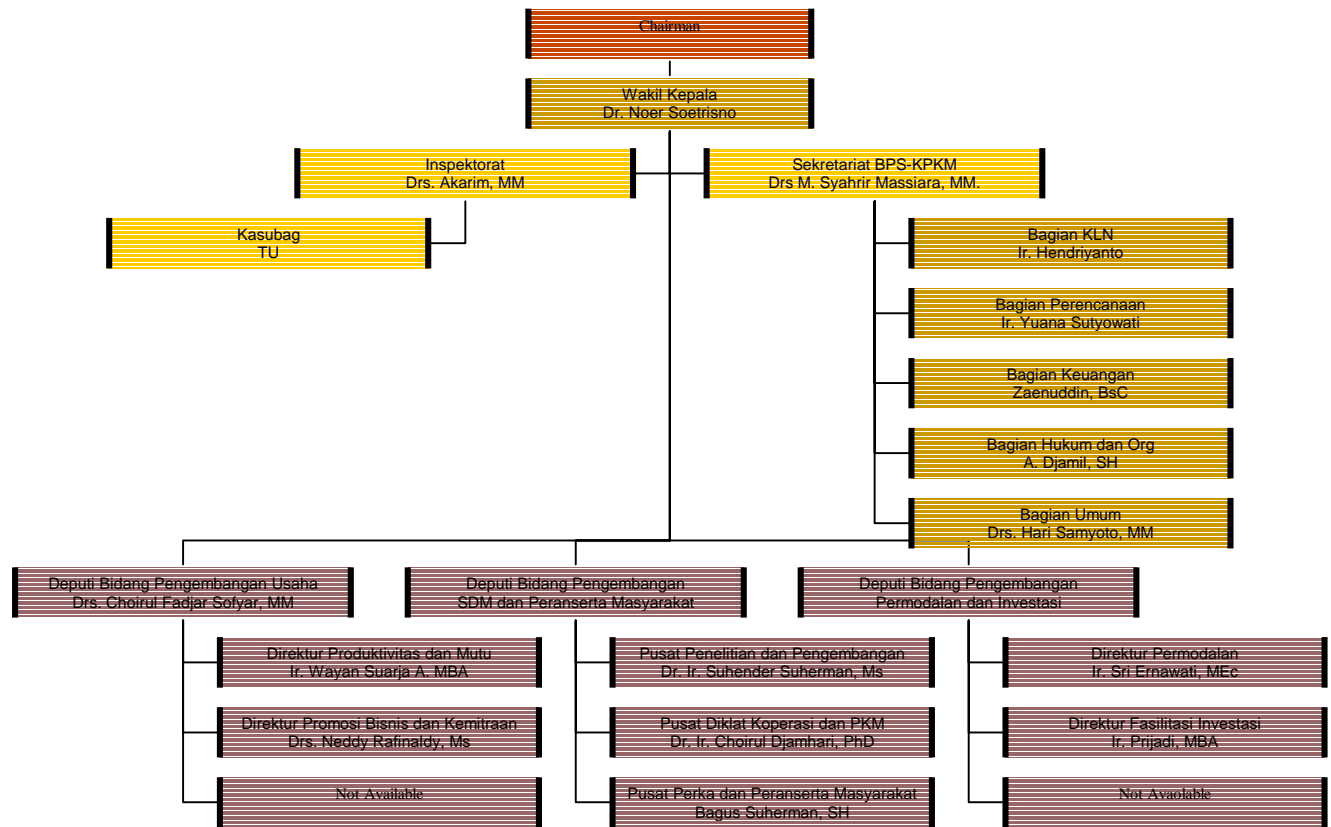
MENNEGKOP's Minister acts as the Badan's Chairman while Bapak Noer Soetrisno is its Vice Chairman. The organogram is still evolving and is far from being optimal. The Badan will still have to redistribute staff based on the future needs of the planned activities. For example, in the Bagian Perencanaan (Planning Section), the Management Information System and the Information Technology (IT) have been combined. When this Consultant mentioned this matter to the Vice Chairman and pointed out the importance of the IT, the Vice Chairman immediately acted and asked the IT group to focus more on IT concerns. The organogram reflects the three main programs as shown in Figure 1.

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<sup>11</sup> The Maharani is by itself a BDS. The Kepala informed this Consultant that the Maharani has already replicated its model several times in various places inside and outside Java. The system of services included business plan, site selection, grocery layout, retail merchandising, accounting system, and inventory control system. Right now, their clients are even asking them to source qualified personnel or train their own people.



Figure 1: MENTERI NEGARA URUSAN KOPERASI DAN UKM/KEPALA BADAN PENGEMBANGAN SUMBERDAYA KOPERASI DAN PKM



The Badan was designed and intended to be lean and mean. Overall, it will have a total complement of 250 employees, of which only 183 have thus far been hired. Most of the current staff were drawn from MENNEGKOP. Many were attracted by the challenge and vision of the leadership. This is particularly true with the relatively young directors and sub-directors. It is also true that some staff took the transfer as a way to promotion and added responsibility. Overall, the staff are generally enthusiastic, having a “pioneering” spirit, and are willing to take the challenge of building a new institution. The staff deployment is as shown below:

Table 1: Badan’s Manpower Deployment

	Lead	Staff	Total	Percent
Secretariat	6	53	59	32.42
Auditors	1	8	9	4.95
Business Development	3	12	15	8.24
HRD and Advocacy	4	21	25	13.74
Capital and Investment	3	25	28	15.38
Researchers (various levels)		45	46	25.27
Total	17	164	182	100.00

Source: Badan Personnel Records, 2001.

In general, the staff is highly motivated. This could be due to the pioneering feeling that the Badan brings. The Vice Chairman is very well qualified to lead, armed with a very high level of education plus substantial experiences as a young executive and chief operating officer. Practically all those in the middle management are relatively young and well educated. Most have their MBAs from reputable universities in Indonesia and abroad (in fact, two came from the Asian Institute of Management in Manila). Three to four are PhDs from the US and the ASEAN region. The atmosphere is different from most of the GOI agencies visited by this Consultant. They are much more willing to help and eager to engage. Like the Vice Chairman, everyone has an open-door policy.

## **2.4. Some Training Resources**

Mainly inherited from the MENNEGKOP, the Badan has more than 190 training packages that can be classified into 23 categories. They can be transformed into various courses for existing SMECs. Most of these packages, however, need to be adapted to the current situation. Likewise, practically all are not in the electronic form yet and it may require time to put them on a hard disk or a CD-ROM. But everyone agrees that these packages are valuable. They can form the initial resources in the planned resource materials center that can be shared with prospective BDS partners.

## **2.5. Training Gap Analysis**

The Consultant originally intended to map out the training needs of relevant Badan staff thus enabling them to perform their BDS tasks better. However, this is unnecessary because being new, the entire Badan's staff have never had any BDS-related training. The Badan is fairly new in the BDS game. The staff needed to master many conceptual and finer points of BDS and more importantly, the art of building BDS markets. But how are they learning about BDS right now? Informally. They are learning by interacting (in meetings, a few workshops, etc.), observing, listening, and forming their own opinions. While some materials were given to the Badan via the PEG<sup>12</sup> and by this Consultant<sup>13</sup>. The Consultant shared the following materials with the Director of Productivity and Quality:

1. Tentative Agenda, one page
2. Ed Canela, Draft BDS Application Form, Badan Pengembangan Sumberdaya Koperasi dan Industri Kecil dan Menengah, Jakarta, Indonesia, 6 pages.
3. Committee of Donor Agencies for Small Enterprise Development, BDS for Small Enterprises: Guiding Principles for Donor Interventions, 2001 Edition, SME Dept, MSN F2K-207 The World Bank Group, Washington DC, 2001, 20 pages.
4. The SwissContact Case Study, 2 pages
5. Mary McVay, Microenterprise Marketing: Trends, Lessons Learned, and Challenges, SEEP Network and CARE International, Washington DC, September 1999, 32 pages.
6. Alan Gibson, Putting Principles into Practice in BDS: Where we are, Where we're going, and How to get there. Springfield Centre, UK, 2000, 27 pages.

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<sup>12</sup> For example, the Hanoi BDS conference materials, some of which are still being translated.

<sup>13</sup> This Consultant has provided the Badan with a set of materials with more than 150 pages, some of which were actually used in the BDS Modeling Workshop implemented by the Badan last March 30-31, 2001, in NAM Conference Center, Jakarta. See the list in Annex 1.

7. Gavin Anderson, The Hidden SME Sector: research in th Provision of BDS to Micro and Small Enterprises in Viet Nam and Thailand, Hanoi, Viet Nam, April 2000, 24 pages.
8. UNCTAD Commission on Enterprise: Business Facilitation and Development, Expert Meeting on Clustering and Networking for SME Development, Promoting and Sustaining SME Clusters and Networks for Development, Geneva, September, 1998, 24 pages.
9. Michele Clara, Fabio Russo, and Mukesh Gulati, Cluster Development and BDS Promotion: The UNIDO Experience in India, BDS in Asia: Developing Markets and Measuring Performance, April, 2000, Hanoi, Viet Nam, 28 pages.

These materials are thick, too technical and are difficult to read. More so, they are written in English or even if they are translated, it is doubtful whether the translations will ever be appropriate. The materials are better used as references in a BDS learning resource center. The difficulties of getting materials are compounded by the Badan's limited computing and internet capacity. It did not even have a functioning internet link that would have allowed it access to many BDS and current Best Practices resources on the net<sup>14</sup>. It's staff are eager to learn how the BDS functions. In one instance, the nine Badan auditors invited this Consultant to discuss with them some key BDS principles. They even requested a copy of an 80-page document.

BDS courses are very expensive. Only two European institutions seemed active in offering BDS courses on a global scale. Only few training seats are available. Courses for BDS market building are even fewer and more expensive. While it may be useful to sponsor one to three Badan staff in international courses, a much more cost-effective way would be to offer the BDS training in Indonesia. BDS courses (for Indonesian policy makers, managers, and functional staff) can significantly move the state-of-the-art one giant leap forward. Such courses are urgently needed by the Badan. USAID and the ADB TA Team should seriously consider offering them before the year ends.

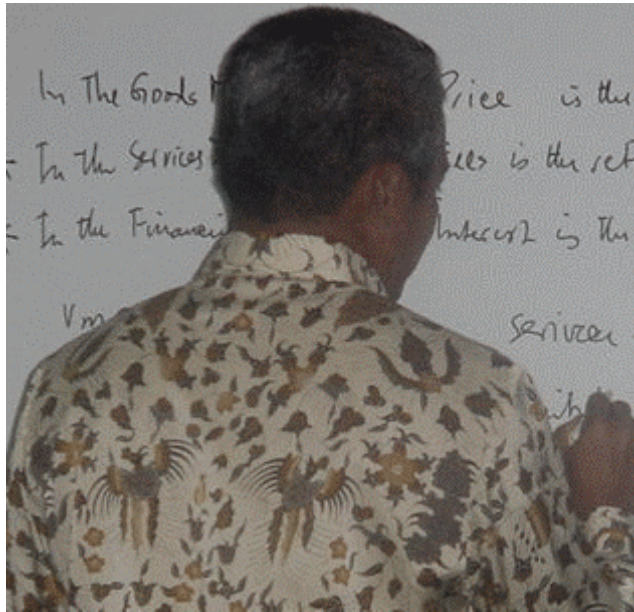
More specifically, the Badan staff needed some training in: managing a BDS partnership, cluster diagnosis, cluster rating system, rapid BDS market appraisal, doing BDS-related training (e.g., for BDS Technicians, BDS Specialists and Staff, etc.), designing and deploying enterprise-friendly BDS product development processes, BDS fee charging systems and procedures, fee-based consulting services, BDS market development strategies, marketing BDS services in weak-demand areas, developing a best practices database, promoting BDS services, computers and IT in SMECs, etc. It is just unfortunate that this Consultant did not have time to transform these needs into practical BDS courses and try out some of them.

According to the staff of the HRD and Advocacy group, they have recently requested proposals for local courses for BDS specialists. The proposals it got are still generic and did not touch the main BDS principles. Consequently all the proposals were rejected and the Badan called some potential bidders to a meeting. This Consultant attended that meeting last April 6, 2001. Out of the six or so training institutions present, only the SwissContact gave the impression of knowing the BDS operating principles. The rest have ideas and combines BDS with their microfinance functions. This farther justifies the need for more local BDS courses.

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<sup>14</sup> Internet has since been installed but on a very limited scale. The Badan needed more computers, telephone lines and Internet links to be effective. Internet is assumed as given in most of its planned programs.

## 2.6. Marketing the BDS



Besides the “socialisasi” and occasional presentations of its programs both at the national and local levels, the Badan has yet to mount an institutional marketing of its BDS services. Such marketing is being planned. The Badan has already drafted an internal brochure. Its look (e.g., printed in green and colors with graphics), feel (show SMECs at work, use photos, etc.) and contents (e.g., potential incomes from BDS, sharing of responsibilities, ownership, invitations for potential BDS partners, etc.) can be significantly improved.

In designing its marketing program, the Badan should consider hiring a corporate image consultant and media specialist. The image should form a unified whole that reflects the

Badan’s values for sharing, linking, networking, and working together with development partners, SMECs, and the Indonesian people. For its BDS program, the Badan may consider having the following marketing instruments: brochures, booklets describing the opportunities for BDS, BDS application forms and a publication of the wide array of tools that it can provide to prospective BDS providers. Contents of some have already been drafted with the help of the Mission. Overall, the Badan must be able to sell the BDS to prospective partners as a business opportunity and not as a program or tasks to be done. This means that the Badan must really behave in a business-like manner.

## 2.7. Business Consulting Clinics and People's Economic Posts

The Badan has also inherited some of MENNEGKOP’s activities including the Business Consulting Clinics (KKB, Klinik Konsultasi Bisnis) and People's Economic Posts (PER, Pos Ekonomi Rakyat). The KKB scheme was launched in fiscal 1996/97 to provide information, consultation (finance, marketing and technologies, etc.) and legal consultation services for SMECs. Today, there still 30 or so KKBs in various shapes operating in 27 provinces/special districts. The best example is in Malang. Meanwhile, the PER scheme was launched in 1999 to complement the KKB scheme.

The GOI subsidized the full costs of a KKB. As with many others in the past, KKBs were expected to become self-financing from the second year onwards. This did not happen. According to some interviews, many KKBs are not fully prepared to be self-financing. Some KKBs reported that they still needed GOI’s financial support (specially in working capital) even though they are confident of their technical ability or they believe that it is difficult to become financially independent under the present circumstances even though such independence is, in principle, desirable. Some SMECs claim that KKB’s advice is too general for their actual needs. At present, the success of this scheme largely relies on the expertise of some highly capable

experts. The real experts needed by the SMECs are generally expensive and may not be interested in SMECs as long as the sector is not willing to pay for such services. KKBs operate very much like the MoIT's BIPIK program. It also has the same problems, e.g., experts cannot match the specific needs of SMECs.

One of the strengths of some KKBs is their ability to introduce potential SMEC borrowers to banks. The SMECs expect to get loans in addition to conventional consulting service from the KKB office. In these cases, KKBs act as an intermediary between banks and SMEs and their business advice in conjunction with a loan agreement could lead to a higher loan repayment rate by SMEs. The Badan is taking this function forward by bringing-in a microfinance scheme as part of its integrated package for the SMECs.

PER units have been established down to the kecamatan level. As of the end of September 1999, about 4,000 units have been established, but most likely the vast majority of them are not functioning. Some PERs have set up an electronic forum in the internet.

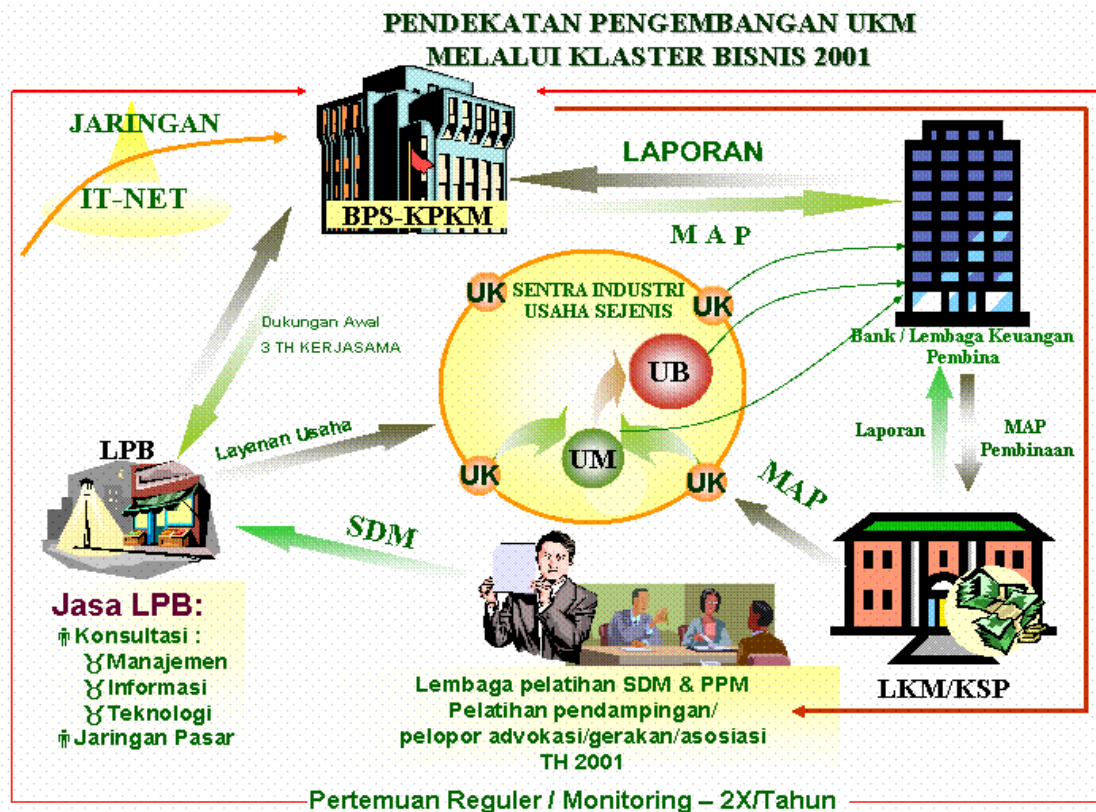
The Mission did not have much time to examine the Badan's KKBs and PERs. In Solo, this Consultant met one or two representatives of KKBs and PERs. It also inquired about the Badan's plans for them. The Badan already informed them that on a case by case basis, the more successful ones can even become associate or full-pledged BDS contractors. The Badan invited those who were in Solo to apply. In determining which BDS providers are to be assisted by SMECDA, it is important that little or no favoritism be shown towards the PERs and Klinik Konsultasi Bisnis (KKB) although it is important that they be also considered seriously as candidates.

## **PART 3: THE MARKET**

### **3.1. The BDS Market Segments**

The BDS market consists of three main segments: developed, developing and undeveloped. The developed (or some economists like to call it as the market with an effective demand) BDS market is still relatively small in Indonesia and it thins out as one moves away from Jakarta. In this market, there are already a number of SMECs who are aware of the need for some BDS services and are already willing to pay for those services. These are normally called "modern" SMECs and usually run by well-educated entrepreneurs and boards of directors. In this market, transactions are usually in the form of fees for service, which may come in various forms. Here, the Badan can learn practical techniques, how the market works and why it works for BDS products and services. The BDS operating in this market may be termed as commercial BDS (or C-BDS).

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The developing BDS market represents the second segment. This market has been battered by the incentives, subsidy and much supply-driven assistance in the past. It is confused in terms of what price to pay for what services. In this market, information is at a premium but remains in very short supply. It has two main components: the first has a weak demand but strong supply and the second has a strong demand but weak supply of BDS. The SMEC consumers think that only the GOI related agencies can provide the much needed BDS services. But as they have experienced in the past, most products and services given have very little value, if at all. This market needs “stimulation” so that it can achieve its full potentials. This same is true with the market for Information Communication Technologies in the rural areas. In this market, the Badan can play a major role in stimulation rather than becoming a major player. It can take in a few seed BDS to demonstrate its ability to create markets and opportunities as well as show the SMECs that “fees for service” works. It can also provide the needed authority figure in conjunction with the Office of the State Ministry for Cooperatives and SME Development to empower local government to provide “an enterprise-friendly” environment. The BDS operating in this market may be called developing BDS (or D-BDS).

The third segment is the undeveloped BDS market. In this market, both demand and supply are weak. This is where social interventions are required. There are also many players in this market, NGOs, church groups, GOI initiatives, angels, and other donor-initiated measures on poverty alleviation, income generating measures, social services, civil societies, etc. It will be difficult for the Badan to operate at this level besides providing advice on the formation of local grassroots organizations and advocacy measures which must be delivered via the local governments. Hence in this market, the Badan’s main client will become the local government officials and not their BDS partners. This market maybe called socialized BDS (or S-BDS).



Clearly, the Badan BDS must situate themselves in the D-BDS. In this market the Badan will be able to provide the participating BDS with a level playing field where they can stimulate and sustain a market for BDS services. This does not mean that the Badan will not support supply-focused interventions as opportunities may exist in areas where the demand is strong but the supply is weak. In this market, the Badan will be able to leverage its limited seed money to attract more investments in BDS from the private sector. To minimize the risks, the Badan will focus on the SMEC clusters.

### 3.2. The Clusters as BDS Target Markets



Throughout Indonesia and more so in the rural than the urban areas, there exist massive producer network SMEC clusters. Most evolved by themselves based on the traditional economic activities of the communities where they are located. They emerge out of the perceived comparative advantages of the products they make, for example the abundance of local raw materials and availability of special skills in making out such products<sup>15</sup>. Take the batik producer clusters in the various districts of Java, e.g. Yogyakarta, Pekalongan, Cirebon, Surakarta and Tasikmalaya. Songket, or the cloth weaving clusters in Sumatera (e.g. Aceh, Padang and Lampung), Southeast Sulawesi, Bali, West and East Nusa

Tenggara, and East Timor, and the embroideries and embroidery work clusters which have since the Colonial Dutch era existed in Sumatera, Kalimantan and various locations across Java. Then, there are the *ikat*-making woven cloth clusters in West Kalimantan, Maluku and Bali. Finally, there are the lowly handicraft clusters which are found in almost all parts of Indonesia. In terms of size, some of these clusters are big (having as many as 1,000 SMECs) while others are small (perhaps, having as few as 20 units).

Some clusters, particularly those that have recently emerged, likewise extend beyond the traditional product lines. There are many large clusters of various craft works such as metals (silver, brass, and bronze), carved wood, and souvenirs items. Many silver work clusters are found in Yogyakarta, Southeast Sulawesi, as well as West and South Sumatera. Likewise, brass clusters are in many places in rural Java, Sumatera and Sulawesi. Finally, many woodcarving clusters are found, amongst others, in the rural areas in West and Central Java as well as Bali.

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<sup>15</sup> While working with JICA, Dr. Shujiro Urata reported that “In general, the advantage of creating a cluster is that it allows SMEs to overcome their disadvantages in terms of the procurement of raw materials and machinery, promotion of product sales and decreasing of the risks associated with demand fluctuations by making the best use of the scale merit given by a cluster. In addition, clusters have advantages in terms of the sharing of information on new designs, processing methods and new product development and the sharing of R&D expenditure, etc.” See Policy Recommendations for SME Promotion in the Republic of Indonesia, July 26, 2000.

There are also other clusters including food and drinks industries; textile and leather products; chemicals and building materials; metal, transportation services; and other craftworks and general consumer products.

By commodity type, food and drinks showed the largest number of SMEC clusters. The food processing and drinks manufacturing meets a local demand, mainly employs women and older people, uses rudimentary production processes and does not need much energy (man as well as electricity power) to do the production, vis-à-vis other industries such as wood, leather and textile products. By region, most of the clusters are found in Java—the country's most populous island. Most visible clusters make the same commodities such as tempe (soybean cake) and tahu (curd), building materials like bricks and roof tiles, shoes, sweetened nutmegs, hoes, and bamboo products.

There is no accepted definition of what constitutes a cluster. Urata (2000) said that a cluster consists of a circular area with five kilometers diameter in which at least 15 manufacturers, mainly comprised of SMEs, in the same line of business are located together and actively producing products. Estimates on the number of clusters vary with the persons and institutions making the estimates. According to MoIT, it assisted a total of 12,000 in 1998 under its BIPIK Program<sup>16</sup>. Despite the financial crisis and primarily due to the resiliency<sup>17</sup> of the SMECs under difficult times, current estimates put the most likely number of known clusters at approximately 20,000<sup>18</sup>.

Not all the SMECs are in the clusters. While no reliable estimates exist for the non-cluster SMECs, it would be safe to assume a figure ranging from 60 to 70 percent. The number of clusters is not growing anymore and most of these clusters are five years and older. The clusters are a good target for development and clearly. The development of markets for the BDS has in the past efforts of the GOI not been undertaken in these areas.

In describing the dynamics of the clusters, Tambunan<sup>19</sup> reported the following: “however, not all subsectors and not all provinces have experienced the increase in the of clusters during that period. Clusters in different subsectors or provinces may experience different internal conditions (e.g. the availability of technology, capital, skills and raw materials) as well as external conditions (e.g. market opportunities and government policies). In some subsectors, output markets may have been distorted by monopolistic or oligopolistic or other cartel practices by big companies or by government policies such as export tax or regulations on import of raw materials that favor big enterprises or foreign direct investment firms. Or, clusters in some regions may have stagnated because of heavy competition from clusters in other regions producing similar but better quality products and having better access to transportation facilities, sources of raw materials and banks.”

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<sup>16</sup> See Urata, et al, 2000.

<sup>17</sup> See Asia Foundation's, etc.

<sup>18</sup> Between 1992 to 1994, the number of small enterprise clusters in all subsector which received assistance from the MoIT accounted for 8,300 clusters in 1992 and increased by about 8 per cent to 9,000 clusters in 1994.

<sup>19</sup> See Tambunan, Tulus, Development of Small-Scale Industries during the New Order Government in Indonesia, Ashgate Publishing Company, UK, 2000.



In his actual visits to some clusters in Solo, this Consultant found that not all the SMECs in the clusters are owned and managed by pure entrepreneurs. Some are actually owned by worker entrepreneurs. It is not fair to assume that all the clusters will have an equal chance for growth and export which seemed to be the prevailing belief of many local GOI officials including the Badan. In fact, one of the major criteria that the Badan can use in selecting the target clusters would be the entrepreneurial ability of some SMECs. The worker entrepreneur types of SMECs, are less likely to use the BDS services. There is also a marked distance between the clusters (and hence, their SMECs) visited and the location of the nearest possible BDS providers who will more likely be in the town or city center. Most SMECs visited did not even have phones to link with the BDS services. The Lembaga Pengabdian Masyarakat (LPM) team who were with this Consultant agreed that presence by the BDS is needed in the clusters selected. The LPM is another example of an independent institution that is now behaving like a BDS. It is connected to the March 11 University in Solo and has an office in the city center rather than being in the campus. Despite this however, the office is still too far from the potential clusters that may be targeted by the Badan.

Though clusters have considerable possibility for efficient delivery of BDS, it is important to recognize that many of the more dynamic SMEC's are located outside them. These are also a target market for BDS.

### 3.3. Efforts to Assist the Clusters



Over the past 20 years, GOI exerted effort to create clusters as a visible point of support for SMECs. For example, as early as 1974, MoIT introduced the BIPIK Program to help SMECs through cluster formation. Later, this became the PIKM Program, which aimed at facilitating the transition from small to medium scale enterprises. Then came the MENNEGKOP who extended a significant amount of assistance, e.g., both in terms of guidance and hardware supports to the SMECs via the clusters. The GOI implemented various institutional schemes and provided the clusters with common facilities, e.g. technical assistance and machines. Such facilities can be used by all producers in the clusters. For example, Technical Service Units (UPTs): each unit provides the machineries and equipment required by the entrepreneurs in the cluster. Besides the establishment of UPT, in efforts to strengthen the position and increase the marketing and raw

material access of SMECs, the GOI has also tried to assist the development of clusters by developing cooperatives, known as KOPINKRA (small craft cooperative clusters) inside clusters.

Moreover, the GOI also implemented the Bapak Angkat (Foster-Parent Scheme) that co-opted some of the large private sector businesses, state-owned enterprises such as State Electricity Company (PLN) and State Oil Company (Pertamina), and the existing research/service centers such as Research and Development Centre for Plastics, Rubber and Leather Industries, in the promotion and provision of subcontracting opportunities and guidance. The Bapak Angkat concept has eventually undergone various improvements and became the Kemitraan Concept.

One of the recent programs of the Ministry is the Kemitraan scheme, which co-opted selected state-owned enterprises (or BUMNs) to become part of the overall process of promoting and developing SMEs. The scheme required the participating BUMNs to allocate at least three percent of their annual profit for the promotion and development of the SMEs. About thirty percent of this amount can be spent in training SMEs while the rest can be used as soft loans to the SMEs. There were mixed feelings about the Kemitraan scheme. On the one hand, the BUMNs felt that this is another form of indirect taxation and required them to do more “welfare” types of services, which they were not designed for. The loan scheme directly competed with the more commercialized programs that are now in place either formally (e.g., commercial banks, networks of microfinance schemes implemented by banks such as the Bank Rakyat Indonesia as well as the thousand other NGOs doing several loan and credit programs) or informally (e.g., moneylenders, family sources, etc.). The interesting but least known fact about the Kemitraan however is that it stimulated the creation of many BDS types of activities since it subcontracted many of its training functions to individual and group consulting and training firms that delivered the courses ranging from simple management and leadership courses to entrepreneurship and motivation courses. Fewer were on the technical side.

The collaboration between the MoIT and the MENNEGKOP dates back since 1989, when the KOPINKRA was promoted and established in the clusters under a joint MoIT and MENNEGKOP umbrella. Hand-in-hand, they provided technical and managerial guidance via extension officers in the Technical Service Units in the cluster. There are many other examples of the assistance provided by the GOI to the clusters. Over the past two decades, the MoIT has established various forms of SMEC infrastructures (LIKs, UPTs, CSFs) in the provinces and kabupatens. Most of these installations are well documented and that many of them failed to achieved the needed sustainable development of SMECs both in and outside the clusters. Commenting on the quality of assistance obtained, many SMECs claimed that “the guidance provided tends to focus on the general theories/principles explained in manuals, often failing to apply such theories/principles to practical issues, including the actual needs of the entrepreneurs<sup>20</sup>”.

The main cause of failure was the inability of these installations to create durable and long lasting market for their services. Most of these installations are supply driven and tend to make the GOI a “synthetic” market for BDS providers. The market for the services that would have come from the SMECs did not emerge. Hence, up to the present time, many SMECs are still

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<sup>20</sup> See Urata...

unwilling to pay for any BDS service. In fact, they were hooked on the idea that such services do not carry costs and should be only given rather than sold. This is now dramatically changing. There is now ample realization that such services need to be marketed and sold to their eventual end-users, the SMECs. But this is now more difficult to do than some years back. There is now a strong need for creativity and innovative ways to make this work.

## PART 4: THE BADAN AND THE BDS

### 4.1. BDS in Indonesia: What is Happening?



The GOI BDS working group, assisted by the ADB TA-SME Development Team headed by Mr. Peter Bissegger of the GFA Management (Germany) and Swiss Contact is supposed to assist and evaluate the main activities relating to the BDS in Indonesia. The MENNEGKOP is an integral part of this team. Inside the MENNEGKOP is another task force with three main groups: (a) SME environment, (b) BDS, and (c) Finance. PEG via the Credit Adviser is closely connected with the ADB and the MENNEGKOP teams. In the course of this Mission, the Consultant had various meetings with some members of the BDS Task Force. The Team Leader has requested a copy of their report when completed.

There are many BDS-related activities happening on the ground. Some are largely due to the presence and influence of the ADB BDS Task Force on the SMEC market. Some NGOs, university extension units, small consulting firms, small and even large training institutes have joined the bandwagon and started remarketing themselves as full pledged BDS. These

BDS now ranged from university-based units like the Business Innovation Center in Bogor's Institut Pertanian Bogor to big programs in Yogyakarta's Gadjah Mada University. Some are simple privately owned SMECs offering such services as photocopy, secretarial services, legal advice, etc. Some are part of a conglomerate like the Yayasan Dharma Bhakti Astra that assists hundreds of SMECs. There are big consulting groups like Asemhaki or semi GOI organizations like Sucofindo or SOE-sponsored ones like the BAC<sup>21</sup> program of the Permodalan National

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<sup>21</sup> The Business Advisory Centers seemed to have been an off-shot of the Klinik Konsultasi Bisnis and the Pos Ekonomi Rakyat, about which earlier reservations are noted.

Madani (PNM) Persero. While the Consultant did not have access to a comprehensive study of the state-of-the-art on BDS activities, albeit their market potentials, there could be as many as 200,000 units<sup>22</sup> in the country that in one way or another can lay claim to the BDS market. Added to these are the numerous supply-side BDS types administered by the MoIT's Directorate General for Small Industries and Small Trades (IKDK) on both national and local government levels<sup>23</sup>. But as the Badan's "sosialisasi" experiences reveal so far, these numbers are still relatively small, more so at the Kabupaten and Kotyamadya level.

SMECs as a BDS market is a new development in Indonesia. Prior to the BDS focus, most technical or non-financial services to the SMECs were social-oriented, subsidy-driven and supply-sided types of direct intervention. The main players were GOI institutions and NGOs who had a vision that SMECs are very weak, poor and needed a lot of free services. Some of these agencies even paid their SMEC clients to use their services<sup>24</sup>. Most multilateral and bilateral donors thought that this was the correct practice in Indonesia. They supported this "fee for participation" practice. In some cases, payments for participation may be justified because the service providers then did not behave in business-like ways. For example, many GOI agencies offered courses that started from 9:00 am to 5:00 pm---the staff's office hours (or in some odd venues far from their workplaces). But these are the most productive hours for the SMEC owner-manager. The opportunity cost is at a premium at these times! Most successful BDS offer courses at the time and place that the SMEC owner-managers prefer. Not before or after. If we did not have this "fee for participation" and the market for BDS services was allowed to emerge, become more visible and eventually expand, then the current pool of BDS in Indonesia would have been larger so that when given the right market signals, it could actually deliver much needed help to the SMECs.

One of the most popular BDS is the SwissContact. This Consultant met with Mr. Peter Bissegger<sup>25</sup> who was representing both the ADB Task Force and the SwissContact. The SwissContact has assisted about 15<sup>26</sup> operational BDS throughout Java for the last five years, starting as a vocational training activity and eventually expanding to small business promotion. It is reported that Swisscontact's Small and Medium Enterprise Promotion Project in Indonesia (SMEP) consists of three main components<sup>27</sup>. These are:

***The "SHARE" component*** focuses on the macro level issues aimed at creating a conducive environment for SME development by engaging SME groups in policy

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<sup>22</sup> Looking at a range of BDS activities (e.g., from a friend of the entrepreneurs to a big training-cum-management consulting institute), one way to separate an SMEC-BDS is the target market (e.g., SMECs and other supporting industries in the value chain) as well as actual users (the proportion of the SMECs to the general public consumers actually using the services).

<sup>23</sup> The current activities of the IKDK are numerous and mostly based on the Japanese way of promoting SMEs. Except for minor improvements, most assistance program still look the same as they were ten years back. Among the most important products have been the CEFE courses. It will soon introduce a central product design service, which will be funded by the Japanese.

<sup>24</sup> The practice of paying "uang saku" still prevails. This practice sends a confusing signal as to the marketability (and hence, their eventual values) of the products and services offered by a BDS.

<sup>25</sup> The lady in charge of the SwissContact was on sick leave when the Mission made a call.

<sup>26</sup> This figure have dropped to about nine according to a recent information from the staff of SwissContact. Two more units are still functioning.

<sup>27</sup> See Bissegger, Peter

dialogue and advocacy. One of the main topics in policy dialogue is the promotion of a business – oriented BDS approach for BDS provision.

***The "Business Center" component*** supports BDS providers in a business-oriented approach, aiming to improve the supply of demand-oriented services for SMEs. Based on a business plan (which forms the basis for the selection of co-operation partners), Swisscontact provides financial and non-financial support over a period of up to 3 years. The Business Centers (BCs) are expected to achieve financial viability within this timeframe, selling services to SMEs. New partner organizations are selected by tender and financial support which is based on the business plan worked out by the respective institution. Swisscontact provides financial support for initial investment and for the preparation phase (50% of total cost), also making contributions to overhead costs during the start-up phase. Beside financial support, Swisscontact supports BCs in product development, human resources and institutional development. Up to now, Swisscontact has supported 11 such BCs, all of them located on the island of Java. At least half of these BCs have already achieved financial viability and are no longer supported. Two BCs did not achieve financial objectives.

***The "Voucher Program"*** was piloted in East Java in August 1999 with the World Bank. The aim is develop the BDS market by improving market information and transparency for both BDS providers and SME clients and by offering SMEs financial incentives to take advantage of the BDS. Two types of vouchers are offered: the "SME Voucher" for existing enterprises and a "Junior Voucher" for people who plan to start a business. Vouchers are distributed through the network of public telephone kiosks. In one report, the SwissCintact claimed that within the first six months, approx. 4,300 vouchers were distributed, 2,300 of them were purchased by SMEs, and approximately 700 of which have already been used. The value of a voucher is about USD 7 (or 50% of the price of the service, if the service costs less than USD 14). SwissContact will soon increase the prices for these vouchers.

SwissContact pioneered the *business-oriented approach* in providing BDS to Indonesian SMEs. By now, this approach has been widely accepted and applied by the main donors and also by the GOI. Today, the GOI prefers stand back and act as facilitator in SMEC promotion and development. The field has been cleared for the other players to come in and participate.

The Badan closely watched the evolution of the SwissContact model. It has decided to apply the lessons learned and some of the appropriate strategies used. Conceptually, the Badan will not be involved in the actual delivery of the BDS services to the targeted clusters. Instead, it will identify suitable BDS partners (60 to start with) that it can use as models in the process of building BDS markets for SMECs in sixty selected clusters. The partners are expected to develop their own satellites of associated BDS partners insuring that the services are delivered by the BDS nearest to the target clusters. The Badan will use fees in lieu of the vouchers as the former require less manpower and may have higher chances of being replicated nationwide.

## **4.2. The Possible BDS Partners**

Throughout the Mission, this Consultant has always been asked what does a BDS look like. In response and to help the Badan identify possible BDS partners, this consultant made a list. This list is shown below:

- NGOs (association builders, civil societies, etc.)
- National and sub-national GOI agencies, particularly local government bodies
- Extension units of the academe, universities, polytechnics, vocational schools
- Development projects like SwissContact
- Private sector initiatives, e.g., sectoral organizations, chambers, consulting (both management and engineering) companies, associations, etc.
- Church groups
- Small commercial operations (e.g., wartels, photocopy centers, etc.)
- Professionals (individual or groups, e.g., lawyers, accountants, tax advisers, investment advisers, events managers, ad firms, etc.)
- Trade groups (e.g., exporters, traders, retailer groups, supermarket chains, transport firms, etc.)
- Materials and suppliers groups (e.g., machinery suppliers, materials, etc.)
- IT Groups (e.g., providers, designers, networkers, etc.)
- Private voluntary development organizations
- State-Owned Enterprises (BUMNs)
- Donor-aided projects
- Banks
- Cooperatives
- Bonded warehouses and storage depots
- And many more.....

Based on the number of interests and possible BDS applicants that the Badan have thus far received, the most likely BDS candidates will be an education institution (e.g. extension units of academe, universities, polytechnics, and technical and vocational schools). This was clear in the case of Solo where one of the most likely candidates is the LPM. These units needed several inputs on market (for BDS) and product development. Many of them have their own staff and their own computing facilities. The second most likely partners are in the private sector. The Badan will work with IT groups, private voluntary organizations, as well as professional groups.

## **4.3. The BDS Products and Services**

The products and services offered by many existing BDS in Indonesia are still in their infancy stage. They are still generic (e.g., consulting, training, surveys, etc.) and not properly differentiated, segmented and packaged. In this Consultant's opinion, Achievement Motivation Training (or AMT), which was a form of entrepreneurship training introduced in the eighties, may be considered as one of the most successful training brand introduced throughout the country. The entrepreneurship development package was based on experiments performed by Harvard's Dr. David McClelland. It took this product more than twenty years to gain success and brand image throughout



the country<sup>28</sup>. In the nineties, the German Agency for Technical Cooperation (GTZ) introduced the Competency-based Economies through the Formation of Entrepreneurs (or CEFE) via a series of activities with some NGOs and non-profit foundations. CEFE was pitched to the more sophisticated enterprise starters and has achieved such level that the participants actually pay for the course. In this case, one learns that there is value in targeting a market, charging fees, and differentiating products.



None of the existing BDS has moved away from the “training” box. For example, training is still called training services instead of other types of interactions like learning events, learning adventures, etc. Consulting is still consulting. It has yet to evolve into coaching, mentoring, moderating, facilitating, animating, virtual counseling, virtual consulting, etc. This is caused by the inadequate market information about the specific needs and wants of the SMECs inside and outside the clusters. There is a very important function that the Badan can perform in getting and disseminating critical market information on the demand and supply of BDS services at the cluster, kelurahan, kabupaten, kotamadya and propinsi levels. Such information will direct investments in BDS prompting them to consider other higher-level

products for the SMECs. The state-of-the art of Internet services clearly show this. This Consultant has not visited an Internet café that has re-designed or tailored their services especially for SMECs. All the services are still the usual services like chat, e-mail, internet search, etc. which are for the general public, e.g., the young crows with lots of money. Tailoring such services to SMECs will require the café to offer services like: market search, export opportunity mapping, sectoral opportunities tracking, etc. Moreover, these will be presented as a package with a brand, content, as well as price.

For example, a BDS can prepare one page description of a problem of SMECs and then provide a solution to the problem via a combination of text, colored photos, and cartoons and distribute this one-pager (on a diskette) to the BDS for resale at nominal costs to the SMECs. This will have the same form as the Calenvise (e.g., from calendar that advises). This is a calendar with 365 pages and each page will have a suitable advice (or a motivation as in some of the Buku Harian sold in Indonesia) for the entrepreneurs. Two types of calenvise may be offered: one for starters and another for existing entrepreneurs. The calenvise will be sold to the entrepreneurs and the public by the BDS. This transformation is essential in maximizing the reach of the BDS services.

As part of this mission, this Consultant listed some of the possible generic BDS products and services that could be provided to the SMECs inside and outside the clusters. These are:

#### Advice and Consulting

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<sup>28</sup> There are still many suppliers of BDS in the country. This Consultant met at least three consultants and freelance trainers offering various AMT courses via their own NGOs and training institutes.

- Accounting
- Taxation
- Business planning
- Legal advice
- Production and technical advice
- Machinery and materials sourcing and procurement
- Market matching
- Logistics and transport arrangements
- Advocacy
- Personal investing
- Franchising
- Marketing campaigns
- Hiring consultants and technicians
- Health and working conditions
- Economic analysis
- Training
  - Start-up, entrepreneurship and business leadership
  - General management training
  - Growth courses
  - Effective marketing and selling
  - Production and technical training
  - Micro-skills development
  - Computer and internet
  - Do your own business plans
  - Raising capital
  - Mini-seminars
  - Roundtables
- Services
  - Marketing facilitation
  - Internet and computing
  - Product design and development
  - e-Commerce and homepage design and development
  - Export facilitation
  - Registration and licenses
  - Secretarial, translations, correspondence and photocopying
  - Trade fairs and events management
  - Tours facilitation
  - Corporate image, advertising and desktop publishing
  - Product design
  - Quality control
  - Maintenance
  - Research and market surveys
  - Subsector analysis
  - Accounting system installation
  - Representation and brochure distribution
  - Personnel hiring and selection
  - Credit and collection



- Harassment avoidance
- Credit investigation services
- Labeling and certification
- Information
  - Internet research
  - E-mail subscription and maintenance
  - Contact and database management
  - Schedules and calendar maintenance
  - Advice on demand (via cell, phone, fax, etc.)
- Space Rentals
  - Mailbox and address systems
  - Web hosting services
  - Conference and events services
  - Telephone answering service
  - Computer and Internet facilities
  - Community billboards
  - Reading areas and library functions
  - Training equipment rentals
- Association Formation
  - Cooperative, association, foundation formation
  - National and local link development
  - Events management
  - Grants and proposal preparation
  - Roundtable discussions
  - Sectoral dialogues
  - White paper
- MicroFinance Services
  - Brokering finance

#### **4.4. The Basic BDS Concept: Teaching the Tiger to Fly**

The SwissContact has shown that there is a real market for BDS services out there in the world of SMECs. What seemed to be lacking is the will of the existing BDS providers to take advantage of an emerging market. The persisting notion that the SMECs are too poor to afford the price for the services of the BDS is still the dominant thinking behind many of the current programs, government and non-government, public or private. The real challenge is in building a sustainable market for the products and services of the BDS. This is a challenge that the Badan can definitely fulfill. There are two important hypotheses in building this market.

The first is that a more efficient BDS market should lead to a better allocation of resources and, as a result, should be more cost effective for donors and businesses alike. Hence, the need to define what an "efficient" market is. In their



paper "Designing BDS Interventions as if the Market Mattered", Field and Bear describe **effective demand** as "when the recognition of the need to solve a problem intersects with the willingness to pay for a solution to the problem". Similarly, **effective supply** is described as, "when the capacity exists to both solve problems (delivering quality products) and to change the perceived value of the product in the eyes of the customer". A healthy or effective market is when these two conditions overlap. The implication is that, depending on the strength or weakness of either the supply or demand, donor interventions need to be tailor-made to enhancing demand and/or removing supply constraints. This does not mean that we no longer work on the supply side but rather that the nature of our interventions fundamentally shifts. This shift on the supply side is from quantity to quality, while on the demand side we shift from identifying needs to stimulating wants.

The second key hypothesis, which is implicit in this approach, is that there is a direct relationship between the increased purchase of a "good" BDS and the improved performance of a business. This is a hypothesis that has yet to be proven, although most of experts in this field feel, intuitively, that it is correct. The assumption is that if we can somehow get the businesses to pay more for such services, then they must be of value. Otherwise nobody would buy them!

By inference and putting them within the context of Indonesia, this leads to the need for an institution like the Badan to **increase the consumption of "good" BDS by businesses at market prices**. A possible shift in the Badan's strategy would therefore be: a) the stimulation of effective demand and, b) the removal of supply constraints and c) the use of BDS suppliers as intermediaries.

This concept of BDS has significant implications for the Badan's future BDS-related activities. The Badan should do everything possible to facilitate the building of a functioning BDS market. To do this, it should always insist that its partners offer BDS services for fees originally coming from (and never be substituted by Third Parties) the SMECs, no matter how small the amount will be in the beginning. The fee-charging mechanism is very important because the slowly emerging commercial BDS that sell their services at a price will all be negatively affected by another free service. In turn, this will reduce the number of BDS suppliers interested in this market.

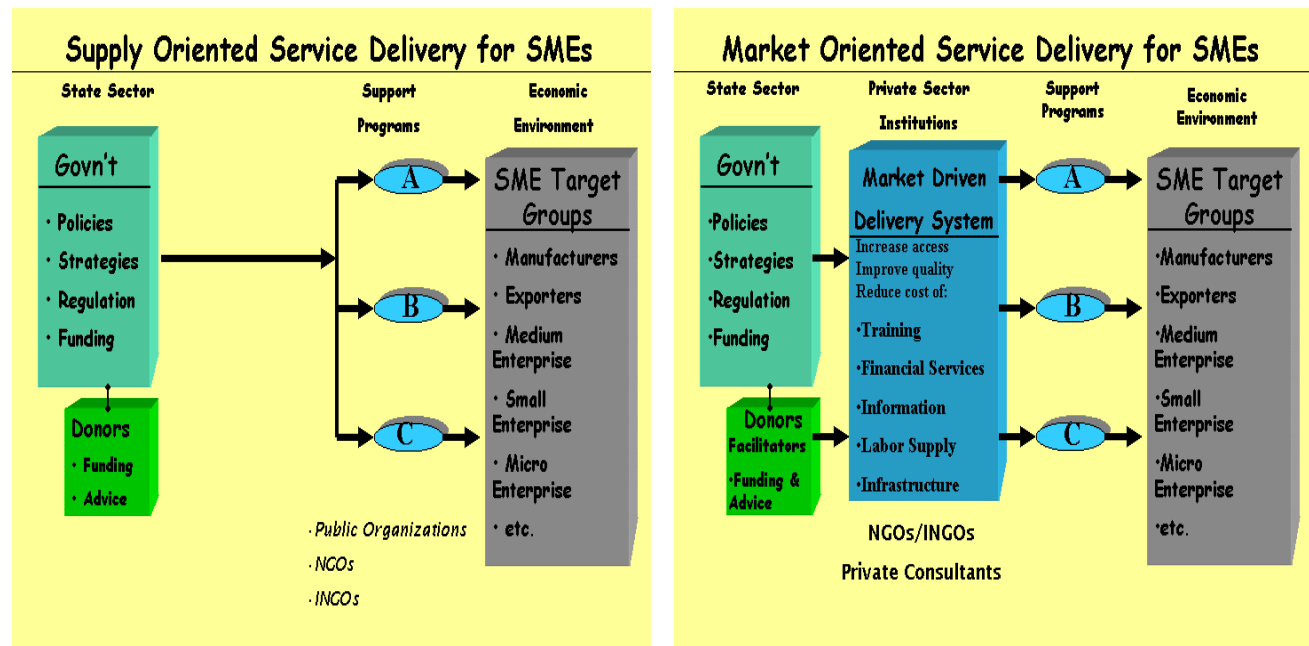
The Badan will actively aim at creating a conducive environment where BDS players will be able to perform their key commercial functions. It will avoid the offering of BDS products for free as was done in the past---where the entrepreneurs did not learn the real cost of the service and that the providers did not have enough incentives to offer better quality of service at the right quantity, time and at a place that the SMECs wanted. The Badan realizes that it is difficult to offer a free service when the other BDS providers are now able to charge fees for their services. To achieve this, the Badan will constantly begin to encourage the SMECs to pay for the services that they have usually taken for free in the past<sup>29</sup>. The Badan can also publicize via its media relations and advocacy programs the profile of the BDS institutions (inside and outside its network) and start focusing on key commercial benchmarks like sales, ROI, recovery ratios, SMEC performance, etc. It can facilitate the distribution of new products and market information (e.g., the cluster that has the highest commercial potentials for BDS services). Finally, the Badan, can serve as a vital link between the relevant local government and the network of BDS that will eventually emerge. The

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<sup>29</sup> In fact, the Vice Chairman is currently preparing a paper on "Pricing of BDS Services" which will form the basis for the development of innovative commercial transaction instruments between the BDS and the SMECs.

Badan will act as the coach and mentor to the local government officials who are doing SMEC promotion and development and develop the needed instruments for relating to the existing BDS networks in the area. The Badan is not alone in this effort. This Consultant visited a World Bank assisted project in the Ministry of Health and saw how the project that is servicing the midwives in the rural areas is applying BDS principles to charging fees from their target beneficiaries.

#### 4.5. Embedding the BDS Principles in the Badan



In 1998, the major donors for SME promotion and development came up with 12 main principles for the provision of BDS services. These principles were discussed in various occasions by this Consultant with key Badan personnel. The implications for the Badan have likewise been mapped out and are shown below:

##### 1. Business-like and demand-led

The best **BDS behave** (e.g., in personnel, systems, values, time, etc.) **like the SMEs they support**. They use business-like and demand-led approaches in serving their clients. They do not unnecessarily abandon their social objectives. There are two major implications for the Badan. First, the Badan must not establish BDS. It should facilitate the creation of a dynamic market for BDS in Indonesia. It should guide others (e.g., local governments and donors) in doing so. Secondly, the Badan should learn how to select the right partner BDS; and develop the vision, culture, motivation and attitudes which reflect a commitment to a business-like approach; encourage the BDS to develop ownership and responsibility for their work; and allow them flexibility in implementation so that the BDS can grow and pursue their objectives. This principle also has four major implications for the BDS partners, e.g., (a) make more clients active rather than passive service recipients, (b) develop transactional relationships with clients (based on exchange, not charity), (c) learn to understand the needs and situation of clients, (d) and for their products. The BDS must adopt a rigorous approach to measurement in terms of both costs and income, and (d)

maintain close contact with clients so that the demand-driven approach is not weakened.

## ***2. Sustainability***

All BDS principles aim at a sustained delivery (and therefore positive impacts of services to the SMEs). BDS providers should support interventions that offer a credible path to sustainability. Interventions should therefore offer a realistic end to donor involvement. Interventions that are not finite need to have a clear rationale and a realistic strategy for long-term support. To the Badan, this would mean that it needs to initiate measures so that the learning and lessons on the best practices in the conduct of the BDS are widely disseminated and fed into future measures to promote and assist SMEs in Indonesia both at the local and national levels. This will justify learning resource centres and other information dissemination measures.

## ***3. Tailoring***

Looking at the complex and variable environments in which SMEs work, BDS services should identify what it is trying to do and with whom. In this sense, ‘tailoring’ an intervention or services means making them specific and relevant to the target market. To achieve this, the Badan must be able to use three very important instruments in overlooking at the activities of the BDS:

- ❑ a cluster needs analysis diagnostic tool
- ❑ a rapid market appraisal system
- ❑ a continuing product development initiative

## ***4. Participatory approaches***

A participatory approach to the planning of BDS interventions offers the advantages of: a better understanding of SME needs; greater ownership by the BDS personnel, clients and participating organizations; and the increased possibility of longer-term sustainability. Consequently, the Badan needs to maintain “strategic” rather than “close” relationships with its partners: in the Regions/Districts (e.g. GOs and NGOs, private sector, academe, microfinance, etc.).

## ***5. Maximizing outreach***

With some exceptions, BDS interventions are non-standardized and can seldom be replicated in the same way as, for example, microfinance projects. However, a number of approaches are being attempted to maximize the impact of BDS interventions, for example: subsector approaches, private learning by entrepreneurs, macro-level interventions. This should prompt the Badan to use media and IT systems to achieve maximum outreach. It should develop alliances and functional partnerships with the players in these fields both at the local and national levels.

## ***6. Building on demonstrated initiative***

If BDS interventions are to be both sustainable and locally owned, they have to build on what is already there rather than supplanting it with imported visions or models. The scale of resource commitment, particularly in terms of finance and equipment, has to reflect the capacity of local partners so as to support, rather than overload their development. This means that:

1. The Badan must treat each prospective BDS individually. We cannot use a standard formula and resource inputs for everyone.
2. The Badan should use existing BDSs with service track records. The BDS that needs the least resource but offers the highest potential impact should be selected.

### ***7. Split and focus***

As with businesses over the past decade, the BDS must focus on what they perceive to be their core competencies, e.g., what they do well. Few specialized services is better than more. It leads to a simpler and more effective relationship with clients. However, innovation and change are important features of any BDS organization. So, (a) the Badan must help the BDS partners find their competencies (e.g., through training) and match them well with the needs of the clusters (via market survey results), and (b) the Badan must never mix the financial and non-financial services in a BDS. The BDS can provide the link (but not credit) to microfinance and credit services.

### ***8. Systematic approaches and program integration***

Despite the need for a significant focus in their activities, the BDS should always be aware of their broader strategic role in SME promotion and development. We need to see stronger coordination between donors, between BDS providers, as well as joint venture and subcontracting relations. Hence, (a) the Badan must encourage the formation of BDS networks at the level of the cluster. One of the performance measures must be “linkability” in addition to market outreach. And (b) the Badan should take an enhanced role in the SME donors coordination initiatives and perhaps even sponsor and annual convention on Best Practices and trends in SMEC services delivery.

### ***9. Renewed focus on cost analysis***

BDS organizations must include costs (hence, must be financially transparent) in their own performance analysis in addition to market outreach. Although costs should not be seen as more important than outreach or impact, financial analysis should be used as a tool for the improved management and delivery of instruments. As such, the Badan should: (a) establish BDS performance indicators and benchmarks and insure their comparability. And (b) implement a performance-based rewards system as an incentive in addition to the economic benefits derived by the BDS themselves.

### ***10. Continued importance of impact assessment and evaluation***

BDS interventions should always have an element of impact assessment built into them. This should combine retrospective and prospective analysis, or evaluation and needs assessment, as part of the normal activities of an intervention. So, a functioning and market sensitive monitoring and evaluation (M&E) and MIS system must be established. This is a proactive rather than a reactive MIS as in many GO agencies.

The most effective evaluations of BDS will be that clients are willing to cover their costs. Any cost evaluation by SMECDA is only a second best solution.

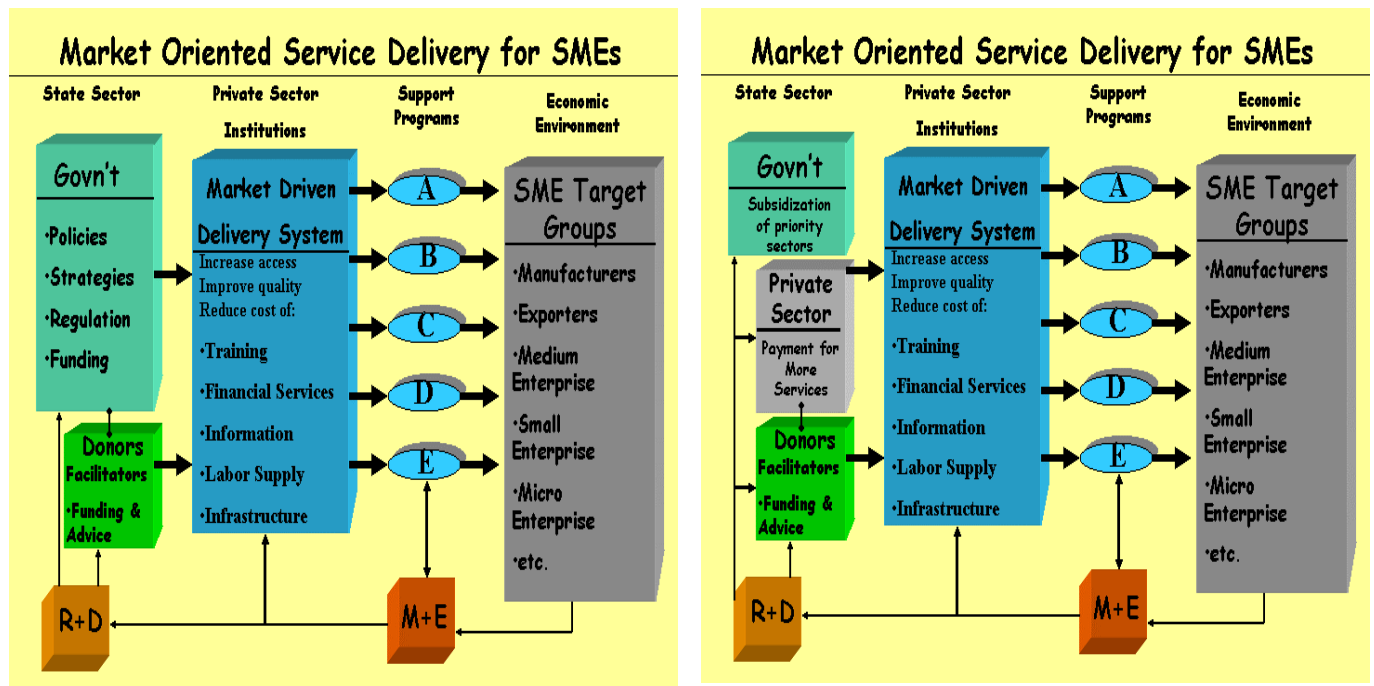
### ***11. Subsidiarity***

A key principle in SME development, particularly as regards the role of the State, is *subsidiarity*, or the common-sense concept of *who can do what best*. In terms of BDS, this

usually means delegating responsibility to the lowest possible level and to those that are closest to SMEs, both geographically and socially. Subsidiary implies that the Badan together with the State Ministry for Cooperatives and SME Development should play a leading pro-active role in shaping a local and national framework of policies, practices and institutions to guide SME development via: sound macro-economic management, and a *relatively* liberal economic system in which regulations are not an onerous burden or highly distorting. It cannot be a direct BDS provider.

## 12. General development criteria

Most development interventions are assessed according to a number of general criteria, including gender, environment, and employment conditions.



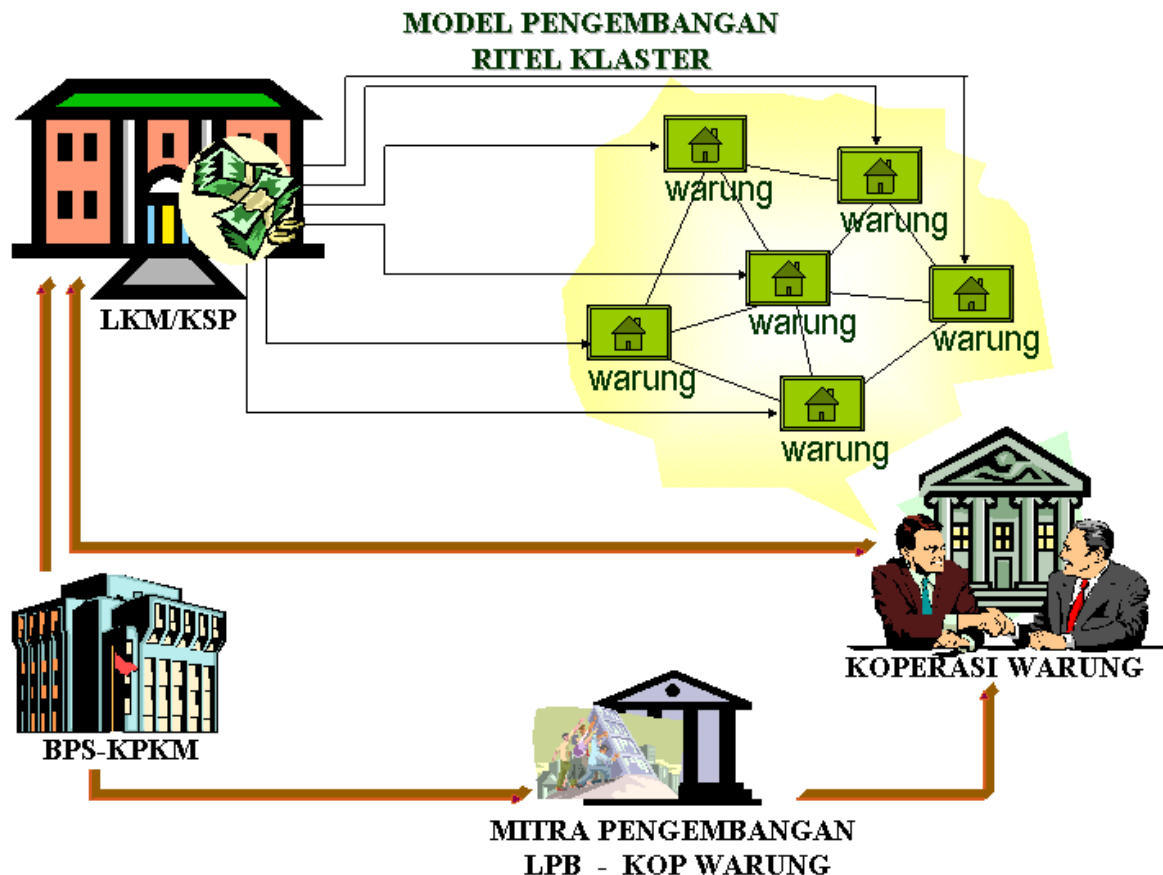
## 4.6. The Badan's BDS Processing Plan

To implement the market-building scheme, the Badan intends to do the following:

1. Selecting the Cluster
2. Announcement and Promotion
3. Pre-selection Process (via Badan and the selection committee)
4. Market Assessment by the Prospective BDS Partners
5. BDS Training and Business Plan Preparation
6. Establishment of network of associated BDS
7. Initial marketing and promotion
8. Start of commercial operations



1. Selecting the Cluster. The Badan has already distributed the information and questionnaires for identifying the clusters to guide the local government officials in the selected provinces. The Rapat Kerja scheduled for April 20 and 21 with all the relevant local government officials in attendance will allow the Badan to clarify and explain the cluster selection criteria. These are: market, availability of raw materials, products, potential linkages and partnership, value adding potentials, infrastructure, total sales volume, technology applied, and number of SMEC units. The success of this activity depends on the way the Badan performs the socialization functions (with the former Kanwils at the propinsi level and then the BAPPEDA), some of which are still underway. In these functions, the Badan surveyed the Kanwils to propose clusters that fit in the above criteria. Then it will go through some of the proposals; e.g., it will have at least two possible clusters per area to choose from. It will avoid cherry picking because the Badan knows that little learning can happen if all cases were successful.



2. Announcement and Promotion. The Badan will announce its search for prospective BDS partners for developing SMECs in selected clusters. The Badan will prepare and distribute to interested parties, a booklet describing the roles and responsibilities of the prospective BDS candidates and the Badan (See Annex 2 as an example). In its announcement, it will use its GOI and media links to do this. Application forms will be accepted at the local level. The draft application form (See Annex 3) for the BDS have already been submitted by this Consultant. This is actually a simplified form of a business plan. The Badan should never consider “proposals” which are not business-oriented, e.g., which do not have the following elements: (a) services to be provided, (b) a market survey of the target cluster, (c) sales forecasts, (d) equity of the BDS candidate, and (e) specific types of assistance needed from the Badan.

3. Pre-selection Process (via Badan plus a selection committee). Once an ample number of candidates are in (the Badan will not wait till all the applications are delivered), a selection committee will be organized. The Badan will invite whenever possible local representatives from qualified BDS service providers (e.g., SwissContact, PNM, Sucofindo, etc. if they did not apply), donors, NGOs, etc. as part of the committee. This will be complemented by the relevant local government representatives. The Badan intends to enhance the local government participation and eventual ownership of the BDS development process. At the end of this process, individual partnership contracts will be drafted between the Badan and the successful candidates. The Badan does not expect a standard contract. All contracts will be on a case-to-case basis depending on the needed services, fees as well as funding arrangements. The Badan is currently considering the following selection criteria:



- 1) Existing BDS. The prospective BDS should be an existing enterprise which is relatively close in distance to the target cluster.
- 2) Present Products and Services. The BDS should have one or any combination of the following services: advice and consulting, training, industrial services, information, space rentals, association formation, and or microfinance services. If possible, it should be able to demonstrate that SMECs in the area are willing to pay for and should be able to show some track-record and capacity in providing the services.
- 3) Existing Market. A substantial portion (i.e., 70 to 80 percent) of the current customer base of the prospective BDS should be SMECs. This means that its current portfolio of products and services are targeted to the SMECs.
- 4) Full-time staff. The prospective BDS should have at least a minimum of five full time staff capable of handling the basic equipment and providing basic services to the SMEC clients. The staff should have a high degree of customer orientation and familiarity with the target cluster.
- 5) Basic equipment. The prospective BDS should have the following basic equipment prior to their application to the Badan: telephone lines (the more the better), well-maintained computer facilities (minimum is four computers), basic library (relevant books, magazines, and other information packs like CD-ROMs, video clips, etc.), motorcycles (if the distance from the target cluster is significant), photocopier, furniture, basic training equipment like flipcharts, overhead projector, whiteboards, video and TV sets, etc.
- 6) Linkability. The prospective BDS should be able to demonstrate ability to create networks and alliances with the providers of other BDS-related services in the targeted area. It is almost impossible to find a BDS that can deliver all the services (and therefore respond to all the issues and needs) of the SMEs in the targeted cluster. The only way out is to enhance complementarities of the BDSs via the establishment of networks. The prospective BDS should be able to list at least 20 associated BDS as part of its network. These associated BDS should already have a Memorandum of Agreement with the prospective BDS and should stipulate among others the fee arrangement between them. Such a memorandum should be already signed before the prospective BDS is officially appointed. The list of banks that the BDS is linked to must also be provided.
- 7) Marketing Competence. The prospective BDS should have a market-oriented brochure, a menu of services including the price list, an operational marketing and advertising plan (either via a local newspaper or radio stations showing the frequency and budgets for such activities), possibly joint marketing with its associated BDS, and an actual survey of the needs of the targeted cluster. The survey should cover at least ten percent of the SME population in the targeted cluster, and should actually provide the estimate of the market size as well as the proposed sales and profit forecasts.



8) Licenses. The Badan's local government counterpart will be the main source for the list of the prospective BDS. Licenses from the local government, telephone, permit to operate the business, bank information, etc. must be provided.

9) Equity participation. The prospective BDS should be able to provide equity participation in the establishment of the BDS. The equity participation will be approximately six months of the working capital (daily expenses for salaries, materials and overhead expenses) needed.

4. Market Assessment by the Prospective BDS Partners. After the pre-selection, the prospective BDS partner will do a market survey of the target cluster. In this market survey, they will be able to get to know the real needs, key players, competitors, price ranges, branding and distribution options.

The assessment can also gather the possible associated BDS that the prospective BDS partner would be linking with to complete a service package. This step is very important for both sides. The Badan will see the commitment of the potential partner and BDS will know the market prior to entry. The Badan will provide some guidelines on how the assessment will be done.

5. BDS Training and Business Plan Preparation. After the market assessment which will be done by each participant prior to attending the course, the Badan will offer two types of training inputs: one is a three-day appreciation course for the BDS Technicians and the other is a two-week course for the BDS staff. The appreciation course will provide inputs on the following: (a) market building and BDS promotion strategies, (b) product development and packaging, (c) fee-charging mechanisms, (d) the BDS Partnership Contract, (e) managing the BDS functions. Meanwhile the BDS Staff course will provide inputs on the following: (a) estimating the market for BDS services, (b) conducting salesmanship and the selling function, (c) refining product package and delivery mechanism, (d) creative pricing of BDS services, (e) credit and collection, (f) financial management and the BDS, and (g) maintaining business-like relationships. Finally, the course will facilitate business plan preparation as well as the schedule of the release of the Badan funds based on the specific needs of each of the prospective BDS.

6. Establishment of network of associated BDS. The BDS partner will now start to build a network of associated BDS that will complement the services that it can provide. This will insure that the services are comprehensive and should be delivered at the place closer to the target cluster.

7. Initial marketing and promotion. The Badan will assist the BDS partner with the initial marketing and promotion. This will be in the form of standardized brochures, notes, posters, and

even radio or local TV spots. This market building support is needed to insure viability especially in areas where the demand for BDS services is still relatively weak. This will culminate in a big event: a formal opening and launching

8. Start of commercial operations. The BDS will be commissioned and local marketing and media support should be provided by the Badan to give the newly commissioned BDS a chance to market itself in the target cluster. For example, the Badan may be able to arrange for radio interviews and newspaper ads describing the BDS and their services.

<i>Price Sensitivity Test</i>				
A	B	C	D	E
Price	% Not Willing Anymore to buy at Price	Cumulative % Not Willing to Buy at Price	% Still Willing to buy at Price	Revenue Maximisation Level
From Survey	From Survey	Cumulative Total of Column B	100% - C	A x D
10	20	20	80	800
11	3	23	77	847
12	2	25	75	900
13	5	30	70	910
14	4	34	66	924
15	2	36	64	960
16	0	36	64	1024
17	13	49	51	867
18	0	49	51	918
19	10	59	49	931
20	5	64	36	720
21	4	68	32	672
22	10	78	22	484
23	12	90	10	230
24	10	100	0	0

(Final note : All of those steps were completed by August 2001).

#### 4.7. What the Badan will Provide

In addition to the initial funding describe below, the Badan will provide the following services to those who will be selected as BDS partners:<sup>30</sup>

1. Assistance in identifying opportunities for BDS. The Badan will provide a Rapid Market Appraisal tool to assist the BDS applicants in getting the pulse of the market for

<sup>30</sup> Dr. Robert Rice (PEG Advisor to State Ministry for Cooperatives and SME development) comments as follows: I think here serious consideration has to be given to the Badan together with tier one BDS providers, such as tertiary institutions, providing these services, in the latter case with the Badan mainly providing some or all of the funding. I think it cannot be overemphasized that the Badan will need much assistance over at least one or two years before it will be able to adequately provide these services. I think it is important that the Badan not try to do too much too soon before it can build up its capabilities, so that it does not suffer from a lot of failures and criticisms during its first year or two of operations, which damage its reputation and limit its future effectiveness.

BDS services and estimating the size of this market. The tool will select the cluster, itemize the needed information, calculations, and formats for implementing the market survey and preparing the sales plans and profit forecasts. The Rapid Market Appraisal tool will require the BDS applicant to stay with the targeted cluster.

2. Media and marketing services. The Badan will employ national media (both broadcast, printed, and internet) to enhance the exposure of all its prospective BDS. Marketing campaigns for continuously stimulating the demand for BDS services will be provided. Moreover, the Badan will provide the formats and sample messages that the local BDS can use for local advertising and marketing campaigns.

3. Start-up training. The Badan will provide initial training on how to manage the BDS considering the following needed inputs: product development, costing and pricing, fee collection systems, customer relations, marketing of BDS services, etc.

4. Continuous training. In addition to the above, the Badan will also provide special training on special themes like product branding, increasing price, advertising, merchandising, new product launching. Likewise, it will initiate a quarterly convention of all the BDS owners to enhance their competence and ability to provide the BDS services and to exchange information and experiences.

5. BDS Newsletters. The Badan will circulate a newsletter for all the BDS owners.

6. New Products. The Badan will provide the BDS owners over a period of three years with new products and new services.

8. Performance Rewards Systems. The Badan will provide the participating BDS owners with an online information on how all the other BDS are performing in terms of a set of pre-defined benchmarks (e.g., market reach, sales and potential profit, etc.) and provide them with online advice on how to improve their performance. These benchmarks should also be the basis for the performance-based management system that will be designed in a participative way with the new BDS owners.

9. E-mail and websites. The Badan will provide the prospective BDS owners with e-mail addresses and host their respective websites in its own e-Commerce portal.

10. Linkage with Microfinance.

#### **4.8. The Badan and the Local Government**

Since the Badan's resources are limited it will probably have to start with a limited and targeted selection of local governments. In implementing the BDS, the Badan and the relevant local government offices will share responsibilities as illustrated below. In the chart, the involvement for each of the activities required by each party has been mapped out. In some cases, the activities will require the full involvement of the Badan (e.g., highest is 5) and in others, the local government. The chart also shows that the Badan and the local government need to work together in this process. The Badan will insure maximum responsibility and ownership to the local government. It has

already budgeted at least two annual conferences with the local government counterparts and another two for the BDS providers.

Table 2:

Activities ↓ Involvement →	Badan					Local Government				
	5	4	3	2	1	1	2	3	4	5
Survey design										
Cluster survey										
Needs Identification										
Cluster selection										
Tendering the BDS										
BDS Applications										
BDS selection										
BDS Appreciation										
BDS Specialist Training										
Operational Phase										
Product development										
New opportunities id										
Market surveys										
Cluster diagnosis										
Product deployment to BDS										
Information Services										
Info-product development										
National BDS market development										
Local market development										
Regulating fees										
Monitoring systems design										
Field impact monitoring										
MIS-national										
MIS-local										
Capacity building design										
Training for capacity building										

#### 4.9. Initial Funding for the BDS Program

There is no doubt that the Badan is fully committed to its main task of building a network of 60 BDS throughout the country. To facilitate the initiation of the planned 60 BDS, the Badan has a budget equivalent to US\$ 50,000<sup>31</sup> per unit. If all goes well, the Badan may consider adding another 30 small BDS having a budget of US\$ 25,000 per unit. It will be however safe to assume that the Badan will concentrate on the 60 partnerships that it has planned to deliver this year.

Discussions on how the money will be used and disbursed are still ongoing in the Badan. What is clear is that this funding assistance will be in the form of a loan to the prospective BDS partners. They will repay the loan within a period of not more than three years via Bank Bukopin with whom the Badan has established a special memo of understanding. The loan will be used for some

<sup>31</sup> Based on Forex rate of US\$ 1.00 = Rp 10,000.

rudimentary equipment and working capital. Moreover, the Badan will assist the BDS in their market development initiatives, for example brochure, websites, local adverts, radio announcements, posters, etc. The maximum limit for the working capital component will be six months. This will be enough time for the BDS partner to build an initial base of fee-paying clients. Thereafter, the Badan's working capital funding will stop. The loan will carry an interest burden at par or close to the prevailing commercial rates.

## **PART 5: THE WAY FORWARD**

### **5.1. What the Mission has Contributed**

Among others, the Mission has made three major contributions to the Badan's effort to prepare and design its BDS program. Briefly these are:

1. Clarity. The Mission provided a more unified vision and strategic approach on the Badan's BDS roles and functions. The Mission was able to raise many relevant questions and share much practical information regarding the exciting world of the BDS. The discussions within the Badan led to the mapping of the key steps that should be taken to insure smooth implementation. The Badan is very receptive to the ideas provided by the Mission.

2. BDS Instrumentation. The Mission has shared with the Badan three of the most critical instruments in doing BDS programs. These are: an application form for prospective BDS partners, criteria for selecting BDS partners and a sample contract for the BDS partners. Moreover, the Mission gave practical suggestions on the following: BDS advertisements and promotion, BDS guides, brochure, rights, responsibilities of partners, and fee charging systems.

3. Influencing the Environment. Being new, the Badan needed the Mission to elaborate its strategic approach with the other players in the BDS game in Indonesia. The Mission was able to identify key complementarities, uniqueness, as well as strategic roles between and among the players. Moreover, the Mission was able to clarify a sharing of the functions between the Badan and its partners in the local governments.

### **5.2. The Opportunities and the Challenges**

The Badan sees the following opportunities and challenges ahead.

1. The New Market Builder. The Badan is fully committed to the challenge of stimulating and facilitating the development of a dynamic and fully functioning market for BDS services throughout the country. To do this, it will not become a BDS but an institution that will help build the BDS industry. It will:

- ❑ Seek ways to develop new modalities and commercial instruments for the effective transactions between the BDS and the SMECs clients
- ❑ Introduce new products and services to the BDS, not only for its current seed of 60 BDS but also for the others now operating.

- ❑ Facilitate the estimation of commercial markets for BDS services and disseminate them widely so that interest and investments will flow to the BDS industry.
- ❑ Continuously create and stimulate the creation of opportunities for the development of the BDS industry in the country.
- ❑ Hire a Corporate Image Consultant

2. Product Development. The Badan can play a very strategic role in the identification and eventual transfer of the new products and services to the network of BDS, the initial seeds to build the BDS industry. Instead of having the generic training products like entrepreneurship development, marketing management, etc. the Badan will go deeper and prepare the necessary resource to do new types of learning events rather than training. To achieve this, the Badan will:

- ❑ Develop new ways of delivering training and consulting services to the BDS network, for example it can use Learning Events rather than Training. Learning events are much broader and no-lecture types of courses that are very engaging and highly interactive. They use extensive media systems including CD-ROMs (in Indonesian language), streaming video, interactive presentations, smart documents (not handouts), animated clips (not graphics or cartoons), etc. It will move away from the usual and boring training systems that now prevail in the SMECs market in Indonesia.
- ❑ In the area of consulting, it will move away from the one consultant to one client pattern. The Badan will use of information technology to deliver consulting as a product rather than a service.
- ❑ The Badan will create a special Information technology Team that will facilitate the development of an interactive website as well as develop IT products and services.

### **5.3. Future Missions and Recommendations**

To achieve the above stated roles, the Badan deserves USAID's partnership and support. It has a clean slate, a fresh mandate and will enter a risky but worthy BDS market, opening new possibilities for sustainable delivery of the needed services to SMECs. Such support will have significant impacts on current USAID activities in Indonesia: private sector involvement, decentralization of the government and empowerment of the local institutions, capacity building and human resources development, in the educational institutions and the private sector as well as the promotion and development of SMECs. The Badan clearly has large needs. However USAID can start on a modest scale. On top of the ongoing advisory services on small-scale credit, the Badan needs additional technical assistance in the following field:

1. Implementing BDS Technicians Training. The Badan needs a functional curriculum, a training consultant assisted by a local team that can implement a series of BDS Technicians Course for at least 180 participants (Badan's staff, prospective partners, managers and other interested parties). These courses will respond to the following needs: how to manage a BDS partnership, cluster diagnosis, cluster rating system, rapid BDS market appraisal, doing BDS-related training (e.g., for BDS Technicians, BDS Specialists and Staff, etc.), designing and deploying enterprise-friendly BDS product development processes, BDS fee charging systems and procedures, fee-based consulting services, BDS market development strategies,

marketing BDS services in weak-demand areas, developing best practices database, promoting BDS services, computers and IT in SMECs, etc.

2. Guidelines in Product Development. The Badan needs more technical guidance in developing new products for transfer to its BDS partners. The results of having one or two cycles of product development can be a major input for the above courses to have immediate field applications. These two cycles will allow the Badan staff the experience of initiating new products in the BDS market.

3. Training of Local Government on BDS. To insure smooth full implementation of its BDS principles, the Badan would like to implement a series of courses for the local government partners in the areas of assisting BDS and the SMECs. Topics like the regional autonomy, regulating versus facilitating, maintaining “enterprise-friendly” environments, working together with the BDS, etc. will be delivered.

4. Comparative Studies and Training. Some Badan staff needs to be trained in market building strategies outside the country. The Mission suggests at least two one week familiarization visits in the countries within the region where some BDS are being implemented. Each visit should at least have three to five persons.

5. Information and Media Systems Development. The Badan has a relative large space that it plans to use as an information and media systems development. The Badan has yet to acquire hardware for this. The planned assistance on product development will provide some technical guidance on how these media systems will be developed. This center will develop media materials and informercials that will assist BDS efforts for Tele-Education, Tele-Retail, Tele-Incomes, etc.

Dr. Robert Rice, PEG Advisor to State Ministry for Cooperatives and SME Development, added the following comments to this report:

1. SMECDA in facilitating the efficient supply and utilization of BDS perhaps needs to think in terms of tier of BDS providers. It now seems as though the approach is for SMECDA to provide various services to BDS providers, who in turn will assist some other providers as well as provide services directly to the business clients. Especially given SMECDA's limited capabilities, perhaps it needs to be recommend that SMECDA provide services to the BDS providers both directly, and indirectly through other service providers, perhaps especially through some of the education institutions and some private sector providers. These first tier providers, including SMECDA would then be providing services to the second tier BDS providers, who in turn would be encouraged to develop their networks to both business clients as well as perhaps other BDS providers.
2. The approach of SMECDA selecting 60 BDS units as a network and then providing them with substantial loans needs to be re-evaluated. It seems as though once they have been selected, the business assisted to use their services will have little or no choice because only one of these 60 BDS units will be in their locality. A much greater freedom for the business clients in selecting the BDS providers is needed,



along the lines of the SwissContact voucher system. Perhaps initially it would be best for SMECDA to concentrate its efforts in several geographic regions with each region having several clusters, and various candidate BDS providers screened to determine whether they are bona fide or not, and then provide varying degrees of loan assistance to them in accordance with their needs, not necessarily \$50,000 per unit. With this approach each business needing business services would be able to choose from several BDS providers, encouraging competition among the providers and bringing home the point to them that if they are continue in this business they must please their SME clients. After this approach has been tested in these several geographic regions, and after SMECDA and associated tier one BDS providers have increased their capabilities, gradually more and more regions would be included in the program. It would be good if the Advisor could make some comments and recommendations about this in his report.

# ANNEXES

## Annex 1: Partial List of the Literature Used by the Mission

### 1. Literature

1. Program Badan Pengembangan Sumber Daya Koperasi dan PKM Tahun Anggaran 2001 (Fiscal year 2001 program of the Badan ...), the programs of the three Deputies of the Badan to realize it, and the associated budgets for fiscal year 2001.
2. Urata, Shujiro, Policy Recommendations for SME Promotion in Indonesia, Japan International Cooperation Agency, July 26, 2000.
3. A draft program matrix prepared by MENNEGKOP for ECUIN Economic Recovery Acceleration Program Matrix: Program 8: Stimulating the Development of Micro, Small and Medium Businesses, Compilation of cross-sector inputs, agenda of meeting on 13 October 2000. Sub-program 8: "To develop and make effective non-government institutions in developing UMKMK businesses."
4. Asian Development Bank, "Background Information and Terms of Reference: Small and Medium Enterprise Development". Section 25, describes the consultants responsibilities with respect to all business development programs. (viii) is "make recommendations for the consolidation and rationalization of business programs managed by the Government"; (ix) is "recommend an organizational framework for the provision of public sector support for SMEs"; and (x) is "recommend incentive systems to encourage private sector provision of services to SMEs on commercial terms".
5. Section III C (Promote Commercially Oriented Technical and Business Support) of Policy Matrix: Industrial Competitiveness and Small and Medium Enterprise Development Program Indonesia of this ADB Small and Medium Enterprise Development project, has listed four actions planned. Action planned 2 is "Government to prepare an action plan identifying opportunities for market-based provision of services and private sector participation", while Action planned 3 is "Based on Task Force review and in consultation with the Bank, Government to consolidate and streamline technical/business support programs".
6. The Government's Kelompok Kerja Usaha Kecil dan Menengah (UKM) (Task Force for Small and Medium Enterprises) draft of Tahap-Awal Rencana Tindak (Preliminary Action Plan) dated October 2000. Under the business development (Non-financial) Services area of this program (Table 3) included in item 3 are the following "Projects Planned":  
"Prepare an action plan to identify opportunities for market-based provision of services and private sector participation to support future TA projects:  
    Conduct policy study on identification of opportunities that stimulate growth and development of BDS;  
    Prepare concept of incentive policy and enabling environment for BDS;

Adoption of incentive policies (such as the "voucher" system);  
Reinforcement of existing BDS and establishment of new ones;  
Initiate divestment of BDS programs to private sector and NGOs."

7. Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) GmbH and Badan Perencanaan Pembangunan Nasional joint study of SMEs. GTZ/BAPPENAS Indonesian Business Advisory Network (IBAN). BAPPENAS-GTZ SME Promotion Project Synthesis Report Action Plan 1 - 3 by W. Hillebrand, C. O'Connell, R. Sa'danoer and R. Albrecht, Jakarta, 1999
8. International Labour Organization, Indonesia: Strategies for Employment-Led Recovery and Reconstruction: Report of the Employment Strategy Mission, 26 April - 7 May 1999: MAIN REPORT, October 1999. P. 231: Types of activities "should be identified which could be provided on full or partial cost recovery basis by government or by the private sector in different contexts and for various services. On the basis of this evaluation a well-grounded set of recommendations should be formulated by sector, service and geographical areas. The recommendations should focus on identifying the activities that can be divested or privatized and also on how best to consolidate those remaining business development services to be provided by government with respect to type of program and implementing agency. An organizational framework should be specified for the provision of business services that are to remain in the public sector and for how government should handle the policy setting and the monitoring and evaluation functions with respect to the other activities to be implemented by the private sector. Promotional and incentive measures to develop private sector capacity in functional areas such as consultancy and training also should be vigorously developed. The institutional mechanisms and methods that can assist with the preceding processes will first need to be identified, established and launched in cooperation with key stakeholder groups." "At the level of enterprises it is important that SMEs themselves become more proactive and engage in activities that will help them grow and develop."  
  
P. 233: One fundamental area of need and support to SMEs under the second strategic orientation is (iii) developing access to the most appropriate range of general and sector and locality-specific business services.
9. International Finance Corporation SME project. The World Bank's Dapati scheme.
10. SwissContact BDS programs using vouchers
11. UNIDO's cluster development program.
12. Common Service Facilities provided by the Ministry of Industry and Trade
13. Law No. 22 of 1999 and associated implementation regulations

14. DHV Consultants BV ITDP-Policy and Advisory Unit (PAU) submitted to the Ministry of Trade and Industry's Agency for Industrial and Trade Research and Development, December 1999.
15. Collection of about 20 papers submitted by various authors to the ADB/BAPPENAS/ILO/WB Seminar on SME Development in Indonesia, held in Borobudur Hotel, 8-9 December 1999. The papers were ably summarized by Peter van Diermen in his forthcoming book.
16. ADB, Background Information and TOR for a TA on SME Development in Indonesia.
17. ILOs Recommendations on Methodologies Concerning Informal Sector Data Collection by Ralf Hussmanns
18. ILO, Summary Project Outline: Support to Policy Reforms for Small and Medium Enterprise Development in Indonesia, undated, for possible funding from the Government of Netherlands.
19. SME Policy in Indonesia: Towards a New Agenda, Draft of a book on the results of the ADB/BAPPENAS/ILO/WB Seminar on SME Development in Indonesia, held in Borobudur Hotel, 8-9 December, 1999.
20. ILO, Mission Report: Employment Strategy Mission to Jakarta, Indonesia, 20 April to 18 May, 1999: Preparations of the SME Development and Large Enterprise Restructuring Mission Input, June 2, 1999.
21. Tambunan, Tulus Development of Small-Scale Industries during the New Order Government in Indonesia, Ashgate Publishing Company, UK, 2000.
22. Asia Foundation, Indonesia's Anti-Monopoly Law and its Impacts on Small and Medium Enterprises, Jakarta, Indonesia, April 1999.
23. UNCTAD Secretariat, Providing Sustainable Financial and Non-Financial Services for SME Development, Experts Meeting Report, Geneva, Switzerland, June 1999.
24. PEG, USAID, Materials Presented to the One-Day Conference on National Trade, Decentralization and Globalization, Borobudur Hotel, April, 2001.

## 2. PARTIAL LIST OF PERSONS CONTACTED BY THE MISSION

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24. Renata Arianingtyas, Yayasan Tifa, E-mail: [renata@tifafoundation.org](mailto:renata@tifafoundation.org)
25. C. A. Ghamry, Indonesia Lintas Net, [ca\\_ghamry@yahoo.com](mailto:ca_ghamry@yahoo.com)
26. Sunaryono, Vice President, Bank Bukopin

## Annex 2: Application Forms for BDS

### APPLICATION FORM FOR BDS

Thank you for considering our opportunity to the exciting world of BDS. We are offering you the opportunity to be our partner in the delivery of the much needed BDS services to our small and medium enterprises and cooperatives. You are in this for the business and the rewards of being a professional BDS services provider.

The entire application form is a “smart” document. It asks you a lot of questions and makes you focus on the business of the BDS that you are about to get into. Think about it twice, three times, four times before submitting it to the Badan. Throughout the process, we have assigned a coach who will help you fill-up this form. You may call him or her at any time so that you can understand the importance of this BDS.

Badan Coach: \_\_\_\_\_ Tel (Office) \_\_\_\_\_ Tel (House) \_\_\_\_\_

Deadline for submission: \_\_\_\_\_

Deadline for Verification: \_\_\_\_\_

Note that you may also submit this on the net, checkout: [http://www.\\_\\_\\_\\_\\_.com](http://www._____.com)

Name: _____ Name of company: _____ Address: _____ Tel: _____ Fax: _____ E-mail: _____ Bank (or Banks): _____ Legal Adviser: _____ Auditor: _____	Photo
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## 1. About your Business

1.1. Please describe your current business activities focusing on the services provided and the various activities you undertake to assist the small and medium enterprises and cooperatives (SMECs).

1.2. Why do you like to provide assistance to SMECs

1.3. Please describe the products and services that you provide the SMECs.

## 2. What you really like to do?

2.1. Please tell us your target group (mention the cluster, SMEC population, needs and wants of the SMECs in the area, etc.)

2.2. How long have you known the cluster and the various SMECs there?

2.3. In your opinion, what services do the SMECs in the target cluster needed that you can provide? Please attach any market survey data that you have done or completed.

- (a) Training (mention the types of courses your can provide and attach the necessary documents)
- (b) Counseling and technical services
- (c) Information and Internet facilities
- (d) etc.

2.4. How do you plan to charge fees from the SMECs clients who will use your services? How much fees will you charge per unit of service?

2.5. How much is the average purchasing power for BDS of the SMECs in the target cluster? Please provide any market survey data that you have done or completed.

2.6. In your opinion, how many SMECs will be assisted by your proposed BDS?

- Year 1:
- Year 2:
- Year 3:
- Year 4:
- Year 5:

2.7. In providing these services, how much in annual sales can you be able to collect as fees from the target SMECs?

- Year 1:
- Year 2:
- Year 3:
- Year 4:
- Year 5:

2.8. What assistance will you need from the Badan for marketing or promoting your BDS services to SMECs outside the target cluster?

### **3. Your capacities**

3.1. How many technical staff do you have right now?

- \_\_\_\_\_ Permanent
- \_\_\_\_\_ Associated or Part-timers
- \_\_\_\_\_ Others

3.2. Of the above personnel, how many are:

- Trainers
- Consultants
- Information specialists
- Graphics designers

3.3. What basic equipment do you have? Please use the checklist shown in Annex 1.

- Car
- Motorbike
- Photocopy
- Training room
- Training furniture
- Overhead Projector
- Desktop Computer
- Laptop computer
- LCD Panel
- Internet facilities
- Computer for rent
- Library
- Color printer
- Scanner

3.4. Do you own the premises where the BDS will be located? If not, how much rental per month do you pay?

3.5. How much do you pay for the following per month:

- Electricity
- Water
- Computer rental (if any)
- Permits and other licenses
- Secretarial help (if any)
- Promotions
- Telephone and telecommunications
- Owner's salary
- Other indirect salaries

## **4. Your organization and your team**

4.1. Who is the owner of the business?

4.2. Please attach the latest CV of the owner and the relevant management team

4.2. Registration Number\_\_\_\_\_

4.3. License Number \_\_\_\_\_

4.4. Tax Number: \_\_\_\_\_

4.5. Banks and bank accounts \_\_\_\_\_

4.6. PEMDA registration

4.7. Types of BDS Training needed



## 5. Your financing plan

5.1. Equity \_\_\_\_\_; existing\_\_\_\_\_ needed\_\_\_\_\_

### 5.2. INVESTMENT PLAN

FIXED INVESTMENT		Total	Existing	New	Equity	Subsidy
2. Buildings and improvements						
3. Equipment						
4. Office Equipment						
5. Transport Equipment						
6. Others						
<b>Total Fixed Investment</b>						
PRE-OPERATING INVESTMENT						
1. Business Plan Preparation						
2. Licenses & Registration						
3. Skills & BDS Training						
4. Trial and Initial Promotion Costs						
5. Others						
<b>Total Pre-Operating Investment (POI)</b>						
<b>TOTAL INVESTMENTS</b>						
WORKING CAPITAL						
DIRECT OPERATING COST						
1. Raw Materials Costs						
2. Direct Labor Costs						
3. Office Overhead						
<b>Total Direct Operating Costs</b>						
INDIRECT OPERATING COSTS						
1. Owner's Salary						
2. Salary for Marketing Staff						
3. Salary for Production Staff						
4. Salary for Adm. & Finance Staff						
5. Selling & Marketing Costs						
6. Office Supplies						
7. Rentals						
8. Other Expenses						
<b>Total Indirect Operating Costs (1)</b>						
<b>TOTAL ANNUAL OPERATING COSTS</b>						
WORKING CAPITAL REQUIRED						
<b>TOTAL PROJECT COST</b>						
<b>DEBT TO EQUITY SHARE (%)</b>						

(1) NOTE that this Indirect Operating Costs still needs depreciation and POI amortization.

(2) NOTE that maximum working capital allowed from the subsidy is only one month.

### 5.3. PROJECTED PROFIT AND LOSS

	Year 1	Year 2	Year 3	Year 4	Year 5
Planned Number of Clients to be Assisted					
<b>SALES (from Fees)</b>					
<b>Subsidies (if any)</b>					
<b>DIRECT OPERATING COST</b>					
1. Raw Materials Costs					
2. Direct Labor Costs					
3. Office Overhead					
<b>Total Direct Operating Costs</b>					
<b>GROSS PROFIT</b>					
<b>INDIRECT OPERATING COSTS</b>					
1. Owner's Salary					
2. Salary for Marketing Staff					
3. Salary for Production Staff					
4. Salary for Adm. & Finance Staff					
5. Selling & Marketing Costs					
6. Office Supplies					
7. Rentals					
8. Other Expenses					
<b>TOT INDIR. OPS. COST BEF DEP'N &amp; POI</b>					
9. Depreciation					
10. POI Amortization					
<b>TOTAL INDIR. OPERATING COSTS</b>					
<b>OPERATING PROFIT</b>					
<b>INTEREST</b>					
<b>PROFIT BEFORE TAX</b>					
<b>TAX</b>					
<b>PROFIT</b>					
<b>BEP</b>					
<b>DEPRECIATION CALCULATOR</b>	Value (Rp)	Period (Yrs)	Annual Dep'n		
1. Building and Improvements		10			
2. Equipment		5			
3. Office Equipment		5			
4. Vehicles		5			
5. Others		5			
<b>TOTAL</b>					
<b>DEPRECIATION CALCULATOR</b>	Value (Rp)	Period (Yrs)	Amort. / Year		
1. Pre-Operating Investment					

5.4. Exit Strategy. Please elaborate an exit strategy for yourself in case the BDS fails.

### **Annex 3: Criteria for Selecting the BDS**

1. Existing BDS. The prospective BDS should be an existing enterprise that is relatively close in distance to the target cluster. The BDS should have had simple products and services (e.g. training, consulting and advise, information, computer and internet, e-Commerce, etc.) that SMEs in the area are willing to pay for and should be able to show some track-record and capacity in providing the services.

The following organizations can be selected as BDS:

NGOs

National and sub-national GOI agencies, particularly local government bodies

Extension units of the academe, universities, polytechnics, vocational schools

Development projects like SwissContact

Private sector initiatives, e.g., sectoral organizations, chambers, consulting (both management and engineering) companies, associations, etc.

Church groups

Small commercial operations (e.g., wartels, photocopy centers, etc.)

Professionals (individual or groups, e.g., lawyers, accountants, tax advisers, investment advisers, events managers, ad firms, etc.)

Trade groups (e.g., exporters, traders, retailer groups, supermarket chains, transport firms, etc.)

Materials and suppliers groups (e.g., machinery suppliers, materials, etc.)

IT Groups (e.g., providers, designers, networkers, etc.)

Private voluntary development organizations

State-Owned Enterprises (BUMNs)

Donor-aided projects

Banks

Cooperatives

Bonded warehouses and storage depots

Transportation companies

And many more.....

2. Present Products and Services. The BDS should have one or any combination of the following services:

Advice and Consulting

Accounting

Taxation

Business planning

Legal advice

Production and technical advice

Machinery and materials sourcing and procurement

Market matching

Logistics and transport arrangements

Advocacy

Personal investing

Franchising

- Marketing campaigns
- Hiring consultants and technicians
- Health and working conditions
- Economic analysis

#### Training

- Start-up, entrepreneurship and business leadership
- General management training
- Growth courses
- Effective marketing and selling
- Production and technical training
- Micro-skills development
- Computer and Internet
- Do your own business plans
- Raising capital
- Mini-seminars
- Roundtables

#### Services

- Marketing facilitation
- Internet and computing
- Product design and development
- e-Commerce and homepage design and development
- Export facilitation
- Registration and licenses
- Secretarial, translations, correspondence and photocopying
- Trade fairs and events management
- Tours facilitation
- Corporate image, advertising and desktop publishing
- Product design
- Quality control
- Maintenance
- Research and market surveys
- Subsector analysis
- Accounting system installation
- Representation and brochure distribution
- Personnel hiring and selection
- Credit and collection
- Harassment avoidance
- Credit investigation services
- Labeling and certification

#### Information

- Internet research
- E-mail subscription and maintenance
- Contact and database management
- Schedules and calendar maintenance
- Advice on demand (via cell, phone, fax, etc.)

#### Space Rentals

- Mailbox and address systems

- Web hosting services
- Conference and events services
- Telephone answering service
- Computer and Internet facilities
- Community billboards
- Reading areas and library functions
- Training equipment rentals
- Association Formation
  - Cooperative, association, foundation formation
  - National and local link development
  - Events management
  - Grants and proposal preparation
  - Roundtable discussions
  - Sectoral dialogues
  - White paper
- MicroFinance Services
  - Brokering
  - Finance

3. Existing Market. A substantial portion (i.e., 70 to 80 percent) of the current customer base of the prospective BDS should be SMECs. This means that its current portfolio of products and services are targeted to the SMECs and should be specialized.

4. Full-time staff. The prospective BDS should have at least five full time staff and be capable of handling the basic equipment and providing the basic services to the SME clients. The staff should have a high degree of customer orientation and familiarity with the target cluster.

5. Basic equipment. The prospective BDS should have the following basic equipment prior to their application to the Badan: telephone lines (the more the better), well-maintained computer facilities (minimum is four sets), basic library (relevant books, magazines, and other information packs like CD-ROMs, video clips, etc.), motorcycles (if the distance from the target cluster is significant), photocopier, furniture, basic training equipment like flipcharts, overhead projector, whiteboards, video and TV sets, etc.

6. Linkability. The prospective BDS should be able to demonstrate ability to create networks and alliances with the providers of other BDS-related services in the targeted area. It is almost impossible to find a BDS that can deliver all the services (and therefore respond to all the issues and needs) of the SMEs in the targeted cluster. The only way out is to enhance complementarities of the BDSs via the establishment of networks. The prospective BDS should be able to list at least 20 associated BDS as part of its network. These associated BDS should already have a Memorandum of Agreement with the prospective BDS and should stipulate among others the fee arrangement between them. Such a memorandum should be already signed before the prospective BDS is officially appointed. The list of banks that the BDS is linked must also be provided.

7. Marketing Competence. The prospective BDS should have a market-oriented brochure, a menu of services including the price list, an operational marketing and advertising plan (either via a local newspaper or radio stations showing the frequency and budgets for such activities), the possible joint marketing with the associated BDS, and an actual survey of the needs of the targeted cluster. The survey should cover at least ten percent of the SME population in the targeted cluster. And should actually provide the estimate of the market size as well as the proposed sales and profit forecasts.

8. Licenses. The PEMDA will be the main source for the list of the prospective BDS. PEMDA will also examine the following licenses that will be required to participate in this program: (c/o Bapak Wayan)

Local government:

Telephone:

Permit to operate the business:

Banks:

9. Equity participation. The prospective BDS should be able to provide equity participation in the establishment of the BDS. The equity participation will be approximately six months of the working capital (daily expenses for salaries, materials and overhead expenses) needed.

## WHAT WILL THE BADAN PROVIDE

For those who will be selected as BDS owners, the Badan will provide the following services:

1. Assistance in identifying opportunities for BDS. The Badan will provide a Rapid Market Appraisal tool to assist the BDS applicants in getting the pulse of the market for BDS services and estimate the size of this market. The tool will select the cluster, itemize the needed information, calculations, and formats for implementing the market survey and preparing the sales plans and profit forecasts.

2. Media and marketing services. The Badan will employ national media (both broadcast, printed, and internet) to enhance the exposure of all its prospective BDS. Marketing campaigns for continuously stimulating the demand for BDS services will be provided. Moreover, the Badan will provide the formats and sample messages that the local BDS can use for local advertising and marketing campaigns.

3. Start-up training. The Badan will provide the initial training on how to manage the BDS considering the following needed inputs: product development, costing and pricing, fee collection systems, customer relations, marketing of BDS services, etc.

4. Continuous training. In addition to the above, the Badan will also provide special training on special themes like product branding, increasing price, advertising, merchandising, new product launching. Likewise, it will initiate a quarterly convention of all the BDS owners to enhance their competence and ability to provide the BDS services and to exchange information and experiences.

5. BDS Newsletters. The Badan will circulate a newsletter for all the Badan owners.
6. New Products. The Badan will provide the BDS owners over a period of three years with new products and new services.
7. Performance Rewards Systems. The Badan will provide the participating BDS owners with an online information on how all the other BDS are performing considering a set of pre-defined benchmarks (e.g., market reach, sales and potential profit, etc.) and provide them with online advice on how to improve their performance. These benchmarks should also be the basis for the performance-based management system which will be designed in a participative way with the new BDS owners.
8. E-mail and websites. The Badan will provide the prospective BDS owners with e-mail addresses and host their respective websites in its own e-Commerce portal.
9. Equity participation. The Badan will provide funds for the procurement of additional computer sets and training equipment as well as other justifiable equipment. The funds will be provided as a loan to the BDS. The BDS will repay the loan within a period of three years after the date it was granted.
10. Linkage with Microfinance.

## Annex 4: Sample BDS Contractor Agreement

### BDS Contractor's Agreement

NOTE: Standard Disclaimer: I am NOT a lawyer. This contract was NOT reviewed by a lawyer before being posted. Although this is a sample of an actual contract, the terms and conditions that applied to this project may or may not apply to your project. Details may need to be added, altered, or omitted.

#### **BDS CONTRACTOR'S AGREEMENT**

THIS BDS CONTRACTOR'S AGREEMENT (the "Agreement") is made as of Date, Year by and between the "Badan" (Badan), and "BDS Contractor's Name" (the BDS Contractor) a (**corporation/sole proprietorship/whatever**) with its principal place of business at the "BDS Contractor's Address".

In consideration of the mutual premises herein contained, the Badan and the BDS Contractor hereby agree as follows:

#### **SECTION 1: THE ENGAGEMENT**

The Badan hereby engages the BDS Contractor to render the services, and deliver the reports, according to the schedule and as described in the Section 2 (collectively, the "Services") below. In the event of any conflict between this Agreement and the annexed Exhibit A, this Agreement shall be used as the basis for settlement.

#### **SECTION 2: THE SCOPE OF SERVICES**

1. The BDS Contractor shall deliver the following services to small and medium enterprises as well as cooperatives (SMECs) in the \_\_\_\_\_ sentra located in \_\_\_\_\_ in the province of \_\_\_\_\_.

2. Specifically, provide the following services as may be required in the time and place by the SMECs in the area in return for the fees deemed appropriate by the BDS Contractor.

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3. Create a network of associated BDS located in the area of the cluster. The associated BDS should complement the services already (or which can be) provided by the BDS Contractor. The network arrangement should specify among others the menu of services to be provided by the associated BDS as well as the possible fee charging arrangements.



4. Perform marketing and promotion of the BDS services at the local level via the use of local broadcast and printed media following the guidelines and samples provided by the Badan. The BDS Contractor will provide the highest level of professionalism and a positive corporate image.
5. Provide the Badan with a quarterly report on the users of the services (e.g. from the BDS contractor plus the network of associated BDS) in terms of the following: fees being charged per service, effectiveness of price increases, economic data such as sales, employees, relevant cost items, etc. as well as issues encountered in managing the BDS as well as lessons learned.
6. Maintain an updated set of books which can itemize the various costs incurred in implementing the BDS.
7. The BDS Contractor can decide to change the mix of services under this section provided that there is ample evidence indicate that such services are no longer needed by the SMECs in the cluster. In the even that such change becomes inevitable, the BDS Contractor will replace that service based on a new bit appropriate new products.
8. Try out new products that the Badan will from time to time provide the whole network of BDS providers. In such cases, the Badan encourages the BDS providers to perform the necessary adaptation and tailoring to the Badan products that will make them more appropriate to the target cluster and will eventually enhance their commercial success.
9. BDS Contractor acknowledges and agrees that, except as provided in this Section, it shall not be entitled to, and the Badan shall not be obligated to pay, any monies or other compensation for the Services provided and rights granted under this Agreement.

### **SECTION 3: THE BADAN SERVICES**

1. In full consideration for the performance of the Services described above by the BDS Contractor under this Agreement, the Badan shall provide the BDS Contractor with the following services (check as applicable):

1. Assistance in identifying opportunities for BDS. The Badan will provide a Rapid Market Appraisal tool to assist the BDS applicants in getting the pulse of the market for BDS services and estimate the size of this market. The tool will select the cluster, itemize the needed information, calculations, and formats for implementing the market survey and preparing the sales plans and profit forecasts.
2. Media and marketing services. The Badan will employ national media (both broadcast, printed, and internet) to enhance the exposure of all its prospective BDS. Marketing campaigns for continuously stimulating the demand for BDS services will be provided. Moreover, the Badan will provide the formats and sample messages that the local BDS can use for local advertising and marketing campaigns.
3. Start-up training. The Badan will provide the initial training on how to manage the BDS considering the following needed inputs: product development, costing and pricing, fee collection systems, customer relations, marketing of BDS services, etc.

4. Continuous training. In addition to the above, the Badan will also provide special training on special themes like product branding, increasing price, advertising, merchandising, new product launching. Likewise, it will initiate a quarterly convention of all the BDS owners to enhance their competence and ability to provide the BDS services and to exchange information and experiences.

5. BDS Newsletters. The Badan will circulate a newsletter for all the Badan owners.

6. New Products. The Badan will provide the BDS owners over a period of three years with new products and new services.

7. Performance Rewards Systems. The Badan will provide the participating BDS owners with an online information on how all the other BDS are performing considering a set of pre-defined benchmarks (e.g., market reach, sales and potential profit, etc.) and provide them with online advice on how to improve their performance. These benchmarks should also be the basis for the performance-based management system that will be designed in a participative way with the new BDS owners.

8. E-mail and websites. The Badan will provide the prospective BDS owners with e-mail addresses and host their respective websites on its own e-Commerce portal.

9. Loan (or seed capital). The Badan will provide a loan (or seed capital as the case may be) for the procurement of additional BDS-related equipment. The loan will be disbursed according to the satisfactory performance shown during the periodic performance appraisal by the Badan. The loan to the BDS Contractor will be repaid within a period of three years.

10. Linkage with Microfinance.

#### **SECTION 4: ASSURANCE OF SERVICES**

A. BDS Contractor will assure that the following individuals (the "Key Employees") will be available to perform, and will perform, the Services hereunder until they are completed (identify by title and name as applicable):

Name of Key Employee, Title, KTP, home address, telephone, e-mail

Name of Key Employee, Title, KTP, home address, telephone, e-mail

B. The Key Employees shall serve as the main contact of the Badan on all matters relating with the BDS services, impacts and monitoring reports. They cannot be changed without the prior written approval of the Badan, which approval shall not be unreasonably withheld.

#### **SECTION 5: BDS CONTRACTOR RELATIONSHIP**

A. The BDS Contractor agrees to perform the Services hereunder solely as an BDS Contractor. The parties to this Agreement recognize that this Agreement does not create any actual or

apparent agency, partnership, franchise, or relationship of employer and employee between the parties. The BDS Contractor is not authorized to enter into or commit the Badan to any agreements, and the BDS Contractor shall not represent itself as the agent or legal representative of the Badan.

B. Further, the BDS Contractor shall not be entitled to participate in any of the Badan's benefits, including without limitation any health or retirement plans. The BDS Contractor shall not be entitled to any remuneration, benefits, or expenses other than as specifically provided for in this Agreement.

C. The Badan shall not be liable for taxes, worker's compensation, unemployment insurance, employers' liability, social security, withholding tax, or other taxes or withholding for or on behalf of the BDS Contractor or any other person consulted or employed by the BDS Contractor in performing Services under this Agreement. All such costs shall be BDS Contractor's responsibility.

## **SECTION 6: PROPRIETARY RIGHTS**

A. The BDS Contractor acknowledges that it has no right to or interest in its work or product resulting from the Services performed hereunder, or any of the documents, reports or other materials created by the Badan and provided to the BDS Contractor in connection with such Services, nor any right to or interest in any copyright therein. The BDS Contractor acknowledges that the Services and the products thereof (hereinafter referred to collectively as the "Products") have been specially commissioned or ordered by the Badan as "works made-for-hire" as that term is used in the prevailing Copyright Laws of the Republic of Indonesia, and that the Badan is therefore to be deemed the author of and is the owner of all copyrights in and to such Products.

B. In the event that such Products, or any portion thereof, are for any reason deemed not to have been works made-for-hire or that the BDS contractor has made the necessary adaptations to make the Products more commercially viable, the Badan will encourage the BDS Contractor to have all the rights, titles, and interests in the resulting Product adaptations subject to the agreement of the local government appointed by the Badan to oversee the BDS activities in the area.

C. Notwithstanding the foregoing, the Badan acknowledges that the BDS Contractor's ability to carry out the work required is heavily dependent upon the BDS Contractor's past experience in the SMEC clusters and in providing similar services to others and they expect to continue such work in the future. Subject to the confidentiality provisions of Section 6 below, information communicated to the Badan in the course of this engagement either orally, in the form of presentations, or in documents that report such general industry knowledge is not subject to the terms of A & B above.

## **SECTION 7: CONFIDENTIALITY**

A. In connection with the performance of Services hereunder, the BDS Contractor may be exposed to confidential and proprietary information of the Badan, whether or not so identified

(including without limitation this Agreement). The BDS Contractor agrees to waive all rights to such information and maintain the confidentiality required under this Agreement.

## **SECTION 8: WARRANTIES AND INDEMNIFICATION**

A. The BDS Contractor represents and warrants that:

i) The Services shall be performed in accordance with, and shall not violate, applicable laws, rules or regulations, and standards prevailing in the industry and the BDS Contractor shall obtain all permits or permissions required to comply with such laws, rules or regulations;

ii) The BDS Contractor has full power and authority to enter into and perform its obligations under this Agreement; this Agreement is a legal, valid, and binding obligation of BDS Contractor, enforceable against it in accordance with its terms (except as may be limited by bankruptcy, insolvency, moratorium, or similar laws affecting creditors' rights generally and equitable remedies); entering into this Agreement will not violate the Charter or By-laws of BDS Contractor or any material contract to which it is a party;

iii) The BDS Contractor will perform the Services in accordance with the specifications established by the Badan.

B. The Badan represents and warrants that it has full power and authority to enter into and perform its obligations under this Agreement; this Agreement is a legal, valid, and binding obligation of the Badan, enforceable against it in accordance with its terms (except as may be limited by bankruptcy, insolvency, moratorium, or similar laws affecting creditors' rights generally and equitable remedies); entering into this Agreement will not violate the Charter or By-laws of the Badan or any material contract to which it is a party.

C. The BDS Contractor shall comply with all of the Badan's standards and procedures when working on-site at the Badan, including without limitation, standards relating to security.

D. The Badan shall not be liable for injury or death occurring to the BDS Contractor or any of its employees or other assistants in the course of performing this Agreement.

E. The BDS Contractor hereby indemnifies and holds harmless the Badan, its subsidiaries, and affiliates, and their officers and employees, from any damages, claims, liabilities, and costs, including reasonable attorney's fees, or losses of any kind or nature whatsoever ("Loss") which may in any way arise from the Services performed by the BDS Contractor hereunder, the work of employees of the BDS Contractor while performing the Services of the BDS Contractor hereunder, or any breach or alleged breach by BDS Contractor of this Agreement, including the warranties set forth herein. The Badan shall retain control over the defense of, and any resolution or settlement relating to, such Loss. The BDS Contractor will cooperate with the Badan and provide reasonable assistance in defending any such claim.

## **SECTION 9: TERM AND TERMINATION**

A. The term of this Agreement shall commence on the date hereof and shall continue until the BDS Contractor satisfactorily completes performance of the Services (hereinafter the "Term") within a period of three years.

B. This Agreement may be terminated:

- i) by either party upon fifteen (15) days prior written notice if the other party breaches or is in default of any obligation hereunder and such default has not been cured within such fifteen (15) day period
- ii) by the Badan at any time during the Term for any reason (or no reason) upon ten (10) days written notice.

C. Neither party shall be liable or deemed to be in default for any delay or failure in performance under this Agreement or interruption of service resulting, directly or indirectly, from acts of God, civil or military authority, acts of the public enemy, war, riots, civil disturbances, insurrections, accidents, fire, explosions, earthquakes, floods, the elements, strikes, labor disputes, shortages of suitable parts, materials, labor or transportation or any causes beyond the control of such party.

D. In cases of termination by either party, Government Auditors shall be provided by the Badan to settle any dispute and obtain from the BDS Contractors any and all copies, in whole or in part, of the Products (as they then exist) and any and all tangible materials the Badan provided to the BDS Contractors in connection with this Agreement.

## **SECTION 10: DAMAGES AND REMEDIES**

A. In the event of termination of this Agreement by the Badan pursuant to Section 8.B (i), the Badan shall have all remedies available to it at law and in equity. Any and all Materials prepared for and/or delivered to the Badan prior to termination shall remain the property of the Badan.

B. In the event of termination pursuant to Section 8.B (ii), and provided that BDS Contractor is not in material breach of its obligations hereunder, the BDS Contractor shall be entitled to keep all monies already paid pursuant to Section 2 and the Badan's sole obligation shall be to pay BDS Contractor the amount due for Services already acceptably performed and Materials already accepted, pro rata. In no event shall the Badan be liable for any lost profits or consequential, incidental or special damages.

C. The BDS Contractor waives any and all right to injunctive relief in the event of any dispute with the Badan, and the BDS Contractor's sole remedy in such a dispute shall be at law.

## **SECTION 11: GENERAL TERMS**

- A. This Agreement shall be governed and construed in accordance with the laws of the Republic of Indonesia's applicable to contracts made and fully performed therein which shall have exclusive jurisdiction of all suits and proceedings arising out of or in connection with this Agreement.
- B. Any notices to either party under this Agreement shall be in writing and delivered by hand or sent by a nationally recognized messenger service, or by registered or certified mail, return receipt requested, to the address set forth above or to such other address as that party may hereafter designate by notice. Notice shall be effective when received, which shall be no greater than one (1) business day after being sent by a nationally recognized messenger service or three days after being sent by mail.
- C. The Badan may freely assign this Agreement, in whole or in part. The BDS Contractor may not, without the written consent of the Badan, assign, subcontract, or delegate its obligations under this Agreement, except that the BDS Contractor may transfer the right only to receive any amounts which may be payable to it for performance under this Agreement, and then only after receipt by the Badan of written notice of such assignment or transfer. This Agreement shall be binding upon and inure to the benefit of the parties' successors and assigns.
- D. The waiver by either party of a breach or violation of any provision of this Agreement shall not constitute a waiver of any subsequent or other breach or violation.
- E. Following the expiration or termination of this Agreement, whether by its terms, operation of law, or otherwise, the terms and conditions set forth, as well as any term, provision, or condition required for the interpretation of this Agreement or necessary for the full observation and performance by each party hereto of all rights and obligations arising prior to the date of termination, shall survive such expiration or termination.
- F. This Agreement represents the entire Agreement between the parties. The Agreement may not be amended, changed, or supplemented in any way except by written Agreement signed by both parties.

By: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_